

Flash Economics

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United States: stop immigration or lower prices, a choice must be made

Donald Trump's economic programme includes halting illegal immigration and lowering prices to increase Americans' purchasing power.

Unfortunately, these two objectives are incompatible. Halting immigration will lead to a return of strong pressures on the labour market, resulting in a faster increase in wages and a return to high inflation.

This inflationary effect of halting immigration will clearly overshadow the effects of policies aimed at lowering energy prices or drug prices.

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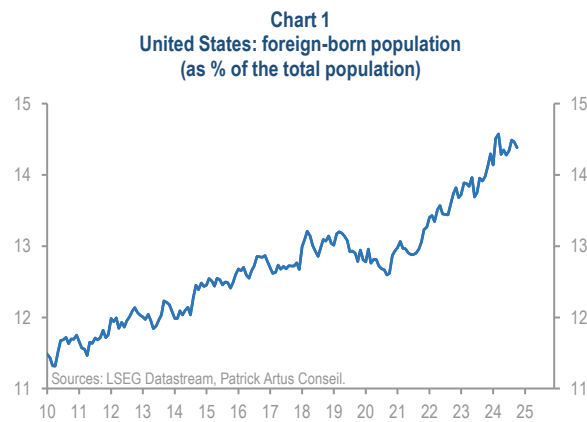
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Immigration in the United States

Chart 1 shows the share of immigrants (in the sense of people born in a country other than the United States) in the US population.



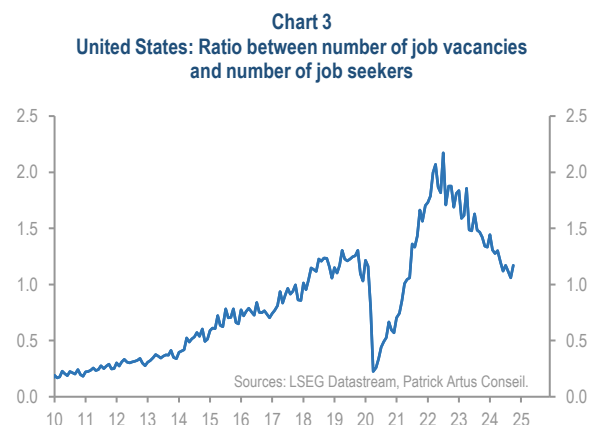
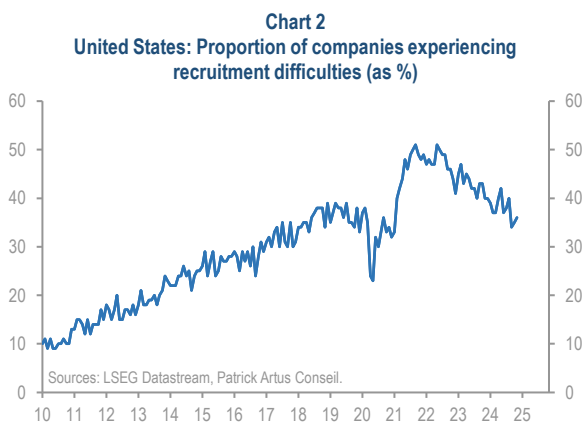
Immigration has risen sharply in recent years, with the share of immigrants in the total population rising from 12.8% in 2019 to 14.3% in 2023.

Among the 47.8 million recent immigrants to the United States at the end of 2023, 49% have obtained US citizenship, 24% are authorised permanent residents, 4% are authorised temporary residents, and 23% (11 million) are unauthorised immigrants, of whom 3 million are nevertheless protected (mainly by an application for asylum) and can legally work. In 2022, 39% of immigrants came from Latin America, and 29% from Asia. Immigrants make a very positive contribution to the health of the American economy.

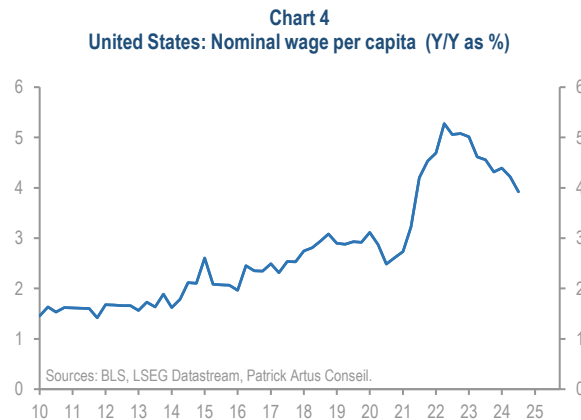
Firstly, it should be noted that the level of education of immigrants in the United States is at least as high as that of US-born citizens. The proportion of immigrants with a bachelor's degree is 35%, compared with 36% for US-born people. The proportion of graduates (master's degree holders) is 15.6% among immigrants and 13.8% among US-born Americans.

An end to immigration would lead to a return of strong tensions in the US labour market

The US labour market has eased markedly since the start of 2022, as can be seen from trends in the proportion of companies experiencing recruitment difficulties (Chart 2) and in the ratio of the number of job vacancies to the number of unemployed (Beveridge ratio, Chart 3).

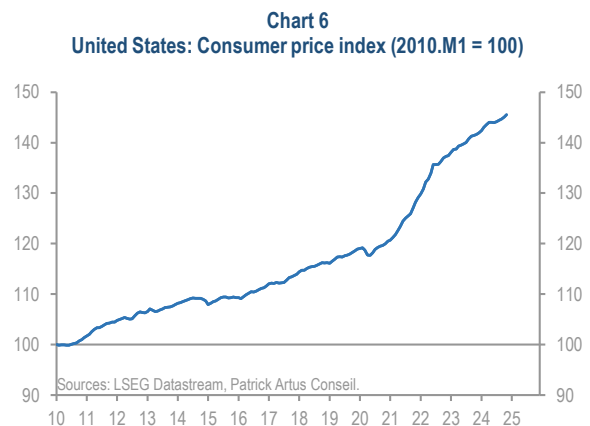
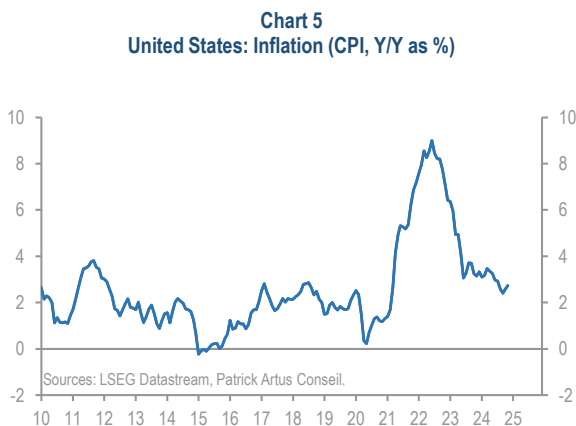


With GDP growth having remained strong (5.8% in 2021; 1.9% in 2022; 2.5% in 2023; 2.8% in the third quarter of 2024), **it is this easing in the labour market rather than weak growth that has led to the slowdown in wage increases (Chart 4).**

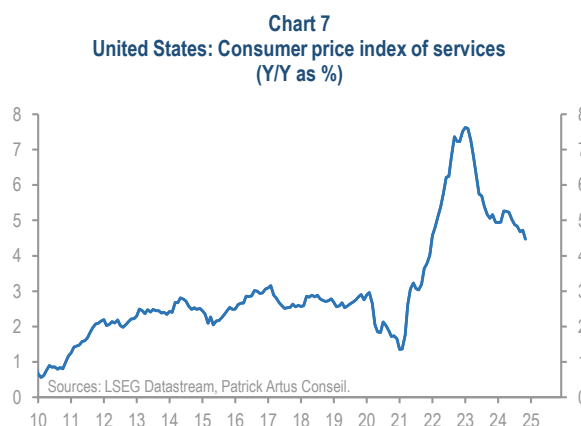


One cannot have lower prices and a major halt to immigration at the same time

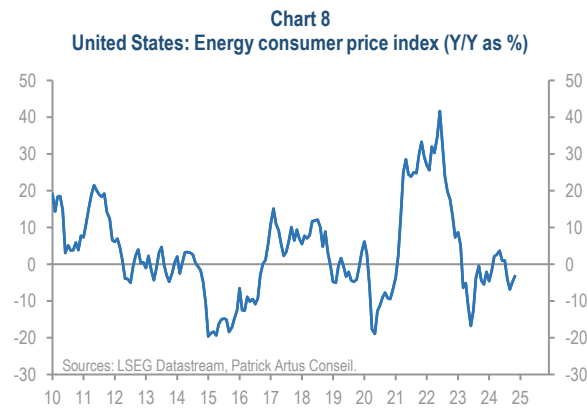
Donald Trump has included two contradictory objectives in his economic programme: lowering prices and halting immigration or even deporting illegal immigrants. While inflation has fallen significantly since the beginning of 2022 (Chart 5), the level of prices has risen sharply since then (Chart 6).



However, halting immigration and deporting illegal immigrants would lead to a return of strong tensions in the labour market, resulting in an acceleration of wages and a rise in inflation, notably owing to the increase in the price of services (Chart 7).



Even if an increase in oil and gas production led to a further fall in energy prices (**Chart 8**), and even if pharmaceutical companies were forced to lower the price of drugs, **these price reductions would be overshadowed by the faster rise in wages, and consequently in the prices of services overall.**



Summary: two contradictory economic policy objectives

Donald Trump will not be able to achieve a sharp reduction in immigration and lower prices at the same time. Donald Trump's voters explained their vote by the fact that prices were too high (particularly for food and petrol) and by their rejection of immigration at the Mexican border.

Unfortunately, fighting immigration will lead to greater tensions on the labour market, faster wage growth and higher prices.

There will be a shortage of workers, for low-skilled jobs as for high-skilled jobs, given the high level of education of a large proportion of immigrants.

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