Comment on "The Postpandemic U.S. Immigration Surge: New Facts and Inflationary Implications"

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This paper explores many aspects of the 2021-2024 immigration surge and shows that it led to similarly sized increases in aggregate demand and aggregate supply. The implication, in both simple and more sophisticated one-sector macro models, is that the effect on inflation was small. In that regard, the paper is persuasive that the immigration surge did not meaningfully increase inflation through the aggregate output-gap channel.

An important contribution of the paper is to characterize several empirical aspects of the immigration surge, including the countries from which immigrants disproportionately came, their propensity to spend income, and their level of education. The authors then embed a stylized version of the immigration shock in a New Keynesian framework with skill heterogeneity, capital adjustment, and hand-to-mouth households, and trace its effects through consumption, investment, wages, output, potential output (the economy's ability to sustainably produce goods and services), and, of course, inflation.

The paper focuses on one important avenue through which immigration can lead to inflation: an increase in output (spending on goods and services) that is not fully matched by an increase in potential output. An increase in the output gap—the difference between output and potential output—puts pressure on prices and wages and thus leads to inflation. Other channels exist as well. Immigration could put pressure on particular sectors in ways that create outsized effects on inflation. The paper recognizes those issues but leaves the multisector questions to other researchers.

I read the paper as persuasive evidence that a change in the aggregate output gap stemming from the immigration surge was not an important contributor to inflation from 2021 to 2024. That is a narrower claim than saying the immigration surge had no price effects through any channel, but it is an important one. Moreover, the paper's findings suggest the more recent abrupt decline in immigration is also not affecting inflation very much through this channel. Because the estimated inflation effects are small under a range of assumptions about immigrant characteristics, the analysis also suggests that future changes in immigration flows may have limited effects on aggregate inflation through this same mechanism.

Inflation, output, and potential output

The hypothesis that the immigration surge meaningfully increased inflation has some intuitive appeal. From 2021 to 2024, CBO estimates imply that net immigration averaged about 2.6 million per year, roughly 1.6 million above the typical annual inflow before the pandemic (Congressional Budget Office 2025). The resulting economic activity was apparent to many and highlighted in news stories. Many of these stories focused on increased demand for housing (Associated Press 2023; Wall Street Journal 2023). Other reporting focused on schools enrolling more immigrant students and local governments facing greater demand for services (Education Week 2024). At the same time, inflation was significantly higher than in previous years. Inflation as measured by the Personal Consumption Expenditure price index excluding food and energy, or Core PCE inflation, rose from 1.5 percent in 2020 to roughly 5 percent in 2021 and 2022 and only moderated to a still-high rate of about 3 percent by 2024. A reasonable question is whether, and how much, the immigration surge contributed to that run-up by increasing demand for goods and services.

What the intuition behind the connection between immigration and inflation misses is something the paper highlights: immigration is not a standard macroeconomic demand shock. It operates simultaneously through multiple channels. On the supply side, an increase in labor supply places downward pressure on wages for competing workers. On the demand side, immigrants consume goods and services and, through higher returns to capital, induce additional investment. The paper's main model captures these mechanisms through three channels: a wage channel (more workers reduce wages for competing workers but raise wages for

complementary workers), a consumption channel (especially through hand-to-mouth households), and an investment channel (more labor increases the return to capital, so investment rises). Conceptually, immigration is therefore a combined labor supply, consumption, and investment shock.

In order to assess the effects on macroaggregates from those channels, the paper first characterizes the empirical aspects of the surge and then simulates a model that uses similar characteristics as inputs. (Later, I discuss how the model simulation uses the empirical analysis.) The paper's results for the effects of the immigration surge on output and consumption from 2022 to 2024 are quite plausible. Output increases by roughly 0.4 percent. In work with Tara Watson (Edelberg and Watson 2024), I estimated that the surge increased GDP growth by about 0.1 percentage point in 2022, 2023 and 2024, which of course cumulates to an effect close to what the authors find in their simulation.

Given the size of the immigration surge, that GDP effect may seem surprisingly small. However, the paper makes clear that the modesty of the effect stems in large part from the fact that immigrants in the surge earn lower-than-average incomes, which tempers their spending. Indeed, a boost to the level of GDP of 0.4 percent in the absence of an increase in potential output would be estimated to raise inflation by only a fraction of the increase in inflation observed from 2022 to 2024. To see this, consider a back-of-the-envelope calculation that asks how large the inflation effect could be in the paper's New Keynesian model, augmented by forward-looking behavior under Calvo pricing, if the immigration surge led to an increase in the output gap of 0.4 percent—that is, if output rose 0.4 percent and potential output was unaffected. In that extreme and very unrealistic case, the implied inflation effect might be on the order of one-half percentage point over the 2022-2024 period. That is not negligible, but it remains modest relative to the observed increase in inflation over the period.

The model's much smaller simulated inflation effect follows from a key feature of the simulation: potential output rises almost one-for-one with actual output. As a result, the output gap increases by only 0.02 to 0.03 percent. Once this is established, the inflation result is largely determined. In a standard New Keynesian setting, a gap of that magnitude generates only a minimal inflation response. The model's small positive inflation response reflects the interaction of competing forces. Investment rises in response to a higher marginal product of capital, and hand-to-mouth households increase consumption. Partially offsetting this, an increase in labor supply reduces marginal costs and is therefore disinflationary. The presence of Calvo pricing implies that even a small but persistent output gap can generate a measurable inflation response. The net effect in the model is therefore a small increase in inflation.

The paper's careful work to show that potential output rises almost as much as actual output is commendable. Perhaps with this paper in hand the result seems obvious. But, I don't think it is for those who have not thought carefully about the issue.

Aggregate inflation and sectoral interpretation

A natural question is how to interpret these results in light of the broader public debate about how prices were affected by the immigration surge and the resulting increase in economic activity. As mentioned above, much attention focused on increased demand for housing and, relatedly, on increased demand for state and local public resources. Housing, local services, and infrastructure are sectors in which supply may be relatively inelastic in the short run. As discussed in Section 7 of the paper, the model features a single final good and therefore abstracts from sectoral heterogeneity. Recent research emphasizes that sectoral shocks that raise prices in one sector (such as an increase in demand for education services or housing) do not necessarily offset sectoral shocks that lower prices in another sector (such as an increase in the supply of labor in leisure and hospitality). In the aggregate, positive demand shocks in constrained sectors may not be balanced by equally strong supply shocks elsewhere. A summary of recent literature (Edelberg 2025) shows that the net positive effect of such shocks on inflation can be amplified by many factors, including low substitutability in the mix of inputs to production, low factor mobility, price and wage rigidity, inflation

expectations feedback, pricing power, and optimal monetary policy that tolerates higher inflation rather than create painful contractionary dynamics.

Relatedly, the model abstracts from potential effects on expectations for future output growth. In practice, sharp increases in local population may lead firms to revise expectations about future demand, potentially amplifying investment responses beyond those implied by a fully rational and fully informed benchmark. While this channel is difficult to quantify, it may play a role in shaping local economic dynamics during periods of rapid demographic change.

My prior is that none of these forces were particularly large in the context of the immigration surge and its effect on aggregate inflation. Nonetheless, the paper's aggregate inflation result is best read as a definitive result regarding the effects of one important channel through which the immigration surge could have boosted inflation, rather than a full accounting.

How the empirical facts map into the model

As foreshadowed above, I return to how the empirical analysis in Section 3 informs the simulation results presented later in the paper. My interpretation is that Section 3 establishes the composition of the surge, while the simulated model uses a translation of those characteristics into a tractable population shock. Section 3 shows that new immigrants from high-encounter countries were disproportionately low-skilled and more likely to be hand-to-mouth consumers. Defining low-skill workers as those with a high-school degree or less, Table 1 shows that 64 percent of HE immigrants in the surge who participated in the labor market were low skill. Taken at face value, that means 36 percent were not low skill. (Indeed, Table 1 reports that 6 percent had at least a master's degree.) However, Table 2 shows that recent HE immigrants were much less likely to be in management roles than HE immigrants who arrived before 2020. Ultimately, the baseline model simulation assumes that 100 percent of the immigration surge comprised low-skill workers. That matters in the simulation because, for example, new high-skill workers induce more investment than low-skill workers.

Before discussing how the simulation might be affected by that assumption, I describe one more parameter in the model that is motivated by Section 3: the fraction of surge immigrants who are hand-to-mouth consumers. Section 3 ends with careful empirical work assessing this fraction. For example, the paper describes the results shown in Table 5: "In our data, the probability of being hand-to-mouth is 38 percent for native-born households, in line with the estimate by Kaplan and Violante (2014), while it is 63 percent for newly arrived HE immigrants." In the model simulation, however, the hand-to-mouth share is set to 54 percent, taken from "the share of households in the PSID with a high school degree or less whose liquid savings are less than half of their income per pay period."

The parameter choices for the simulation exercises are understandable as a modeling simplification. The empirical section motivates the relevant features of the shock—predominantly low skill and hand-to-mouth propensity—while the model implements those features through the broader low-skilled household population.

This translation from the careful work in Section 3 to the calibration in Table 7 is not fully transparent and, arguably, the calibration could have followed the authors' empirical work more closely. The modeling calibration parameters in Table 7 come from a variety of sources, and some could in principle have come more directly from the empirical work described in Section 3. For example, the model could simulate a mixed-skill population shock calibrated to the measured composition of the surge, with both low- and high-skilled population shocks. That exercise would likely imply a larger inflation effect because the high-skill component would generate more capital investment. Similarly, calibrating the hand-to-mouth share to the surge-specific estimate would imply more spending by consumers.

That said, as much as such changes would make the translation from the empirical analysis to the model simulation more transparent, the difference in the macroeconomic outcomes would have been small. In a

robustness check the authors estimate the inflation response if the entire immigration surge was high skill. Inflation is boosted by a little more than 0.1 percentage point in the first 3 years of the shock. That effect is bigger than for the low-skill immigration shock but still quite small relative to what happened to inflation after 2021. A simulation of the inflationary effects of an immigration surge with the mix that the authors show in section 3 would be somewhere between the negligible baseline estimated effect of a few basis points and the less negligible but still small estimate from a high-skill shock.

One conclusion that can be inferred from that range of inflation effects is that, in this framework, an immigration surge would have only a small effect on the aggregate output gap and aggregate inflation across a wide range of immigrant characteristics. Those characteristics include skill composition but also propensity to save, and propensity to work. Relatedly, the results suggest that a reduction in net immigration, again regardless of the characteristics of those immigrants, would also have only a small effect on the output gap and inflation. That finding helps clarify where researchers and observers might look for the effects of abrupt changes in immigration flows on inflation: less in aggregate inflation generated by the output-gap channel, and more in sectoral and localized effects.

Low-skill wages

Although not a focus of the discussion in the paper, the model results show a simulated decline in low-skill wages of roughly 1 percent resulting from the immigration surge. Within the model, this result is internally consistent and arises naturally from the increase in low-skilled labor supply. However, it is useful to situate this estimate within the broader empirical literature. A straightforward reading of the model suggests that the wage effect is generated by an increase in population on the order of several million over a short period. Simulation-based studies often show a similar relationship between wages and immigration shocks, suggesting that the model's calibration is not unusual in that context. For example, Borjas (2019), citing work published by the National Academies of Sciences, Engineering, and Medicine (2016), considers a larger immigration shock—resulting in an increase in population of around 8 million people—and finds a reduction in wage rates of about 3 percent. The model simulation considers a population shock about one-third as large and finds a wage effect that is also about one-third as large. At the same time, the empirical literature on the impact of immigration on native wages is mixed but generally points to smaller effects. A recent meta-analysis by Aubry et al. (2026) found small average effects on native wages, centered near zero, albeit with substantial variation across studies and contexts. From this perspective, the model's wage response may be somewhat larger than the central tendency of the empirical evidence, even if it remains within the range of plausible estimates.

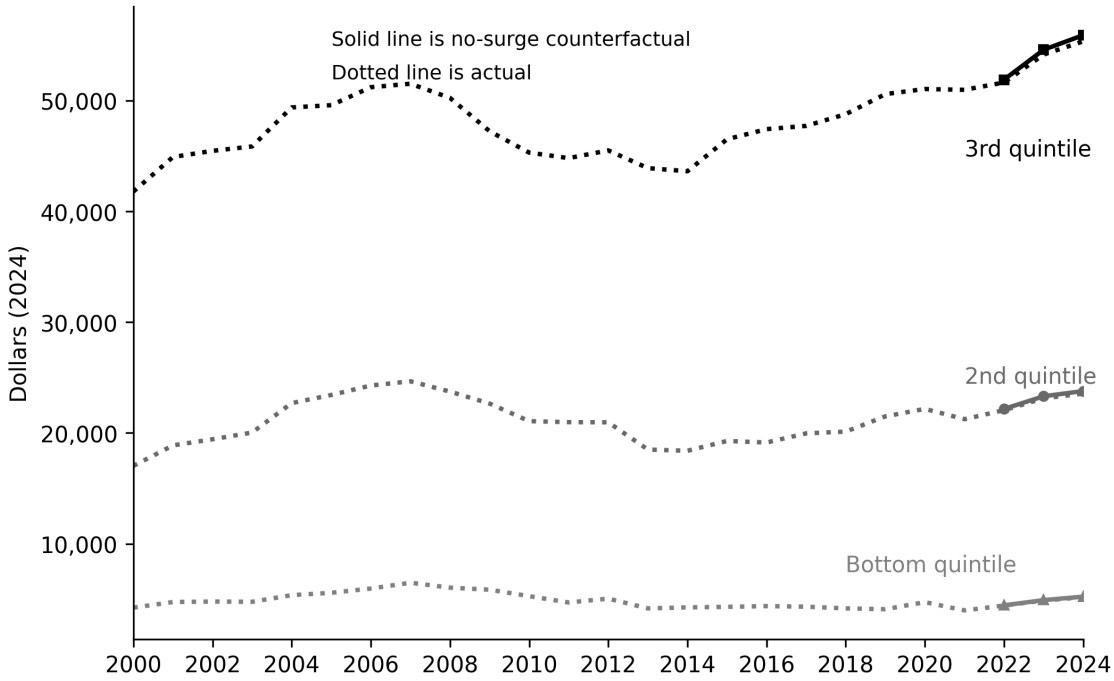

Figure 1. Real annual wages and salaries by income quintile, actual and no-surge counterfactual. Notes: Wages and salaries by income quintile are deflated by the PCE price index to 2024 dollars. Dotted lines show actual values; solid lines show a no-surge counterfactual in which wages are 0.5 percent higher in 2022, 0.8 percent higher in 2023, and 1.0 percent higher in 2024.

Alt text: Line chart showing real annual wages and salaries in 2024 dollars for the bottom, second, and third income quintiles from 2000 to 2024. Dotted lines show actual values over the full period. Solid counterfactual lines begin in 2022 and lie slightly above the actual lines, with a gap of about one percent by 2024.

Even though the model's simulated estimate on the wage rate appears large relative to the central tendency of empirical estimates, its magnitude nonetheless suggests that the immigration surge was not an important contributor to trends in wage rates between 2021 and 2024. Figure 1 provides a simple way to visualize the consequences of a wage effect that rises to 1 percent after 3 years. The dotted lines show actual real annual wages and salaries for the bottom three income quintiles. The solid lines show a no-surge counterfactual in which wages are higher by 0.5 percent in 2022, 0.8 percent in 2023, and 1.0 percent in 2024. This is not a complete welfare calculation, and it holds many margins fixed. It is nevertheless useful for scale.

A 1 percent wage effect is not zero, but it is small relative to the many other forces moving real wage income over this period. For example, for the second income quintile in the underlying data, real wages and salaries (adjusted to 2024 dollars) rose from about $22,173 in 2020 to $23,546 in 2024, an annual growth rate of about 1.5 percent. If real wages and salaries had instead been 1 percent higher for this quintile in 2024, they would have risen to $23,781, an annual growth rate of about 1.7 percent. That difference is worth noting, but it is important not to overstate the role it might play in influencing public opinion regarding immigration.

Effect on interest rates

The paper also has interesting implications for interest rates and capital returns. Section 2 shows that a positive immigration shock can increase the natural rate of interest when investment is endogenous or when hand-to-mouth consumption is important. In the quantitative simulation, the immigration surge raises the rental rate of capital by about 0.15 percent, reflecting a higher marginal product of installed capital and

helping generate the investment response. The simulation results, however, do not report the path of the natural rate of interest or the path of the policy rate implied by the monetary-policy rule. The positive inflation response is consistent with a higher model-implied policy rate under the Taylor rule, but the underlying movement in the natural rate is not shown directly. This leaves open several interesting questions: how much did the immigration surge raise the natural rate; how did the real policy rate move relative to that natural-rate path; and how did the spread between the return to installed capital (which is related to the risky rate) and the risk-free natural rate evolve? The effects are presumably small, but the model could provide useful insight on these margins as well. Such results would help interpret monetary-policy and financial-market conditions following future changes in immigration flows.

Conclusion

In summary, the paper provides a clear and internally consistent account of how an immigration shock propagates through a New Keynesian framework. The central result—that inflation effects are small—follows directly from the finding that potential output rises alongside actual output, leaving only a minimal output gap. The paper's detailed analysis of consumption, investment, wages, hours, and output is particularly useful in understanding the broader macroeconomic effects of immigration.

At the same time, the interpretation of the results depends on the mapping from the empirical composition of the surge to the model shock. Section 3 documents a surge that is disproportionately low-skilled and more likely to be hand-to-mouth; the baseline model implements this as a low-skilled population shock using broader low-skilled household calibration targets. A mixed-skill simulation and a calibration using the surge-specific hand-to-mouth share would clarify how much the baseline inflation response depends on those simplifications. The aggregate inflation result is compelling within the model, but its interpretation would be sharpened by distinguishing aggregate output-gap dynamics from sectoral pressures, and by connecting the wage response to the broader empirical literature.

Immigration clearly raises output. Inflation remains small largely because potential output rises alongside actual output. Given a model in which inflation depends on the output gap, it is difficult for an immigration shock to generate large inflation effects. At the same time, the paper provides a very useful account of what happens to hours, consumption, investment, and output. Those patterns—such as hours rising more than output—help explain why the macroeconomic effects of immigration can appear counterintuitive.

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