Immigration and the U.S. Economy

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Mercatus Center, George Mason University

Disclaimer: The views expressed herein are those of the presenter; they do not necessarily reflect the views of the Federal Reserve Bank of Dallas or the Federal Reserve System.
Overview

• Immigration and
  – Population and labor force growth
  – Business cycle
  – Historical context
  – US.-born workers
  – Taxpayers

• Conclusion
U.S. Immigration and labor force growth
The foreign-born population is larger than ever before

Source: Census Bureau
And foreign-born share of population headed toward historic peak

Source: Census Bureau
U.S.A: destination for 37% of world’s migrants
(net immigration by country)

Source: www.worldmapper.org
Foreign-born inflow drives population and employment growth

• Stock vs. flow distinction important
• Stock: Foreign-born compose
  – 12 % of U.S. population (2005)
• Flow: Foreign-born generated
  – 40 % of population growth (1990-2005)
  – 47% of labor force growth (2000-2005)
Projected foreign-born contribution to labor force growth significant through 2030

Source: PEW Hispanic Center
Foreign-born share of labor force growth by census division

Source: 2000-2005 BLS
Foreign-born share of employment growth by sector

- Farming, fishing, and forestry occupations
- Architecture and engineering occupations
- Computer and mathematical occupations
- Construction and extraction occupations
- Healthcare support occupations
- Protective service occupations
- Legal occupations

2003-2006
Source: BLS
Foreign-born share of employment by sector

- Farming, fishing, and forestry occupations
- Building and grounds cleaning and maintenance operations
- Construction and extraction occupations
- Production occupations
- Food preparation and serving related occupations
- Total
- Protective service occupations
- Legal occupations

Source: BLS (2006)
U.S. Immigration and the business cycle
Immigrants are hard at work

• Foreign-born in U.S. have
  – Higher labor force participation rates
  – Lower unemployment rates
  – Lower initial earnings than similar, U.S.-born workers
• But higher earnings growth
Unemployment rate of foreign-born, native-born track each other

Source: BLS
Difference in Foreign/National Youth Unemployment Rates by OECD country

Minimum Wage as % Average Wage*

*2002 wage as percent of APW
Immigrants are hard at work

• Immigration is procyclical
  – More come in good times, leave in bad times
    • Accommodates faster economic growth
    • Allows for more efficient economy
      – Fewer idle factors
      – Less unemployment

• Immigrants are more mobile
  – Move to where the jobs are
    • Fewer regional discrepancies
    • Lower unemployment
“Real-time” immigration is pro-cyclical

Apprehensions along southwest border

Source: Border Patrol
Apprehensions fall as demand in construction weakens.
On the Move
The Cantú family’s travels in 2006 from hometown, Montemorelos, Mexico, into the U.S. for concrete-pouring jobs.

February
To Fairbank, Iowa, for two weeks building a silo.

March
To Boyceville, Wis., for three weeks building silos for an ethanol plant.

April
To Grand Forks, N.D., for two weeks building silos for a grain elevator.

June
To Marshall, Mo., to build a silo, then to Roanoke, Va., for two weeks building a flour mill.

July/August
To Pueblo, Colo., to build a cement manufacturing plant, then to Charles City, Iowa, to pour a silo for an ethanol plant.

September
To Beulah, N.D., to build 10 silos for a grain elevator, then traveling to Tulsa, Okla.

Source: WSJ reporting
U.S. Immigration in the historical context
The Historical Context: Comparing First and Second Great Migrations

<table>
<thead>
<tr>
<th>Similarities</th>
<th>Differences</th>
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<tbody>
<tr>
<td>• Rapid output growth</td>
<td>• Large wage gaps</td>
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<td>• Rising diversity, declining immigrant skills</td>
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Late 19th century: immigrant origins shifted to Southern and Eastern Europe

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<tr>
<th>Region of Birth</th>
<th>1870</th>
<th>1930</th>
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<tbody>
<tr>
<td>Northern and Western Europe</td>
<td>90</td>
<td>40</td>
</tr>
<tr>
<td>Southern and Eastern Europe</td>
<td>0</td>
<td>40</td>
</tr>
<tr>
<td>North America</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>Latin America</td>
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<td>5</td>
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<tr>
<td>Asia</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Africa</td>
<td>0</td>
<td>1</td>
</tr>
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Source: Census
Late 20th century: immigrant origins shifted to Latin America and Asia

Percent of foreign-born population

<table>
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<tr>
<th>Region of Birth</th>
<th>1960</th>
<th>2005</th>
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<tr>
<td>Europe</td>
<td>75</td>
<td>15</td>
</tr>
<tr>
<td>Other</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Latin America</td>
<td>20</td>
<td>60</td>
</tr>
<tr>
<td>Asia</td>
<td>5</td>
<td>20</td>
</tr>
</tbody>
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Source: Census
Foreign-born wage gap by immigrant origin, 1909

Foreign-born wage gap by immigrant origin, 1909

The Historical Context: Comparing First and Second Great Migrations

**Similarities**

- Rapid output growth
- Mass immigration
  - 15% of workers (year)
  - 40% labor growth (year)
- High skill premium, Rising inequality
- Rising diversity, declining immigrant skills
- Large wage gaps
- Public backlash

**Differences**

- Illegal immigration
Three out of ten foreign-born are undocumented

- Legal permanent residents: 32%
- Undocumented immigrants: 30%
- Naturalized citizens: 35%

Source: Pew Hispanic Center (2005)
Illegal inflows rival legal

Source: Jeffrey Passel and Roberto Suro, Pew Hispanic Center (2005)
The Historical Context: Comparing First and Second Great Migrations

Similarities

• Rapid output growth
• Mass immigration
  – 15% of workers (year)
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Differences

• Illegal immigration
• Fiscal impact
• Labor market trends
  – Globalization
  – Decline of unions
• National security and terrorist threat
U.S. Immigration and the effect on natives
Effects of immigration on natives

• Immigration has effects similar to trade
  – Greater specialization, efficiency, innovation, choice
  – GDP per capita rises for natives (by $30 to $60 billion)

• Who benefits?
  – Immigrants
  – Consumers
    • Lower relative prices; greater diversity of goods, services
  – Capitalists (investors, producers, home owners)
    • Higher return to capital, lower labor costs, investment opportunities
    • Higher home prices

• Who loses?
  – Low-skilled native workers, taxpayers
Wages of less-skilled workers are falling

Real median weekly earnings by education level

Source: BLS
Wages of less-skilled workers are falling

Real median weekly earnings by education level

Source: BLS
Wages of less-skilled workers are falling

Real median weekly earnings by education level

Source: BLS
Wages of less-skilled workers in long-run decline

Real median weekly earnings by education level

Source: BLS
Implications for native workers

• Falling low-skilled wages pervasive
  – Skill-biased technological change

• Immigration: no wage effect on average in long run
  – Low-skilled native workers: wages 1% to 2% lower today

• Many factors mitigate adverse labor market effects
  – Many foreign-born are not close substitutes for US workers
    • Ottaviano & Peri (2005)
  – Capital and labor respond
  – Foreign-born flow to jobs where relative demand is higher
Native-born labor force change, by education

Source: 1996-2006; BLS, Haver Analytics

- College grad: +7428
- Some college: +3231
- High school grad: -655
- Less than high school: -1787

Thousands
Native and foreign-born labor force change, by education

Source: 1996-2006; BLS, Haver Analytics

- Less than high school
  - Foreign-born: 2151
  - Native: -1787

- High school grad
  - Foreign-born: 1983
  - Native: -655

- Some college
  - Foreign-born: 1020
  - Native: 3231

- College grad
  - Foreign-born: 2904
  - Native: 7428

Thousands
Fiscal impact of immigration

• Fiscal impact = tax contributions minus public services received
• Impact depends on education level
  – High school graduate or below imposes net costs
• Fiscal burden distributed unevenly
  – Payroll tax receipts benefit federal government
  – Education and health expenses burden state and local government
Lifetime fiscal impact of less-educated immigrants is negative.

1996 Dollars, NPV

Level of Education

< High School       High School       > High School

Immigrant households rely more on public assistance

Source: Center for Immigration Studies, March 2005 Current Population Survey
What policy makers can take away from the economics

• Immigrants should be different from us
• High-skilled immigration very beneficial
• Low-skilled immigration beneficial but
  – Fiscal impact, assimilation issues suggest process should be managed
  – Visa programs should be aimed at curbing illegal immigration
  – Interior enforcement, no visa program: segmented labor markets?
Conclusions

• Foreign-born important role in economic growth
• Benefits of immigration extensive
• Labor market impacts limited; fiscal impact sizable
• Reform should be pragmatic, in line with the economics
Foreign-born share of US engineers and math/computer scientists

Wage gap related to an immigrant’s country of origin

Native-immigrant wage differential (males) 1990

Source: George Borjas, *Heaven’s Door* (1999)
H-1B cap binding since 2004
Petitions approved for initial employment

Thousands

Source: Department of Homeland Security
Job-based green cards remain in short supply
Immigrants are more likely to lack a high school degree

Source: George Borjas, *Heaven’s Door* (1999); Census; CPS