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The Second Great Migration: Economic and Policy Implications

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The Second Great Migration: Economic and Policy Implications

The United States is now experiencing a large and sustained wave of immigration. Many observers have compared this influx to the Great Migration at the beginning of the twentieth century. Our labor force is again being swelled by immigration, just as during the Great Migration.

Today, we will discuss some of the economic and policy implications of this second Great Migration. First, we will discuss the number and composition of immigrants, and the factors determining these immigration flows. We will then describe the economic performance of immigrants and their effects on the economy. Finally, we will look at policy options.

Number and Composition of Immigrants

As shown in figure 1, the current immigration wave is the largest in U.S. history. 9.1 million immigrants have been legally admitted in this decade, slightly exceeding the previous record of 8.8 million set nine decades earlier during the first Great Migration. In addition, net illegal immigration is estimated to be 2.8 million during this decade.

As a result of recent rapid immigration, the number of foreign-born residents is also at an all-time high, more than 25 million. As a share of the population, foreign-born residents are 10 percent—up from 5 percent in 1970, but below the 15 percent peak reached during the first Great Migration.

Figure 1

Immigration rises to historic high

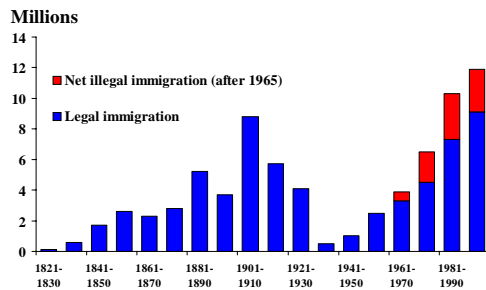
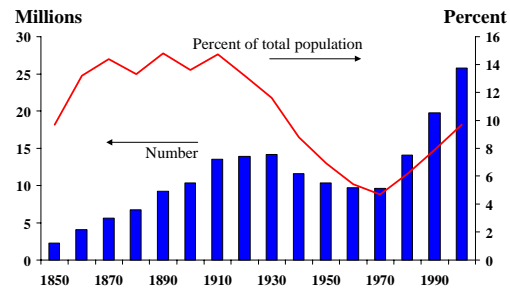


Figure 2

But foreign-born share of population is below historic peak



During the last two decades, one-quarter of the growth of the work force has been due to immigration. In particular, immigration has played a crucial role in sustaining labor force growth during the current expansion.

The first Great Migration was marked not only by a large number of immigrants, but also by a change in their origins, as southern and central Europe replaced western and northern Europe as sending areas. Similarly, figure 3 indicates that the second Great Migration has been associated with a dramatic change in immigrant origins, as Latin America and Asia have replaced Europe and Canada as sending areas.

Some observers have expressed concern that current immigrants are more likely than past immigrants to be at the low end of the skills and education distribution. Notably, figure 4 reveals that a disproportionate number of immigrants lack high school diplomas. While the number of natives without a diploma has dropped sharply during the last few decades, the decline among immigrants has been much less rapid, resulting in a growing disparity.

Figure 3

Immigrant origins have shifted to Latin America and Asia

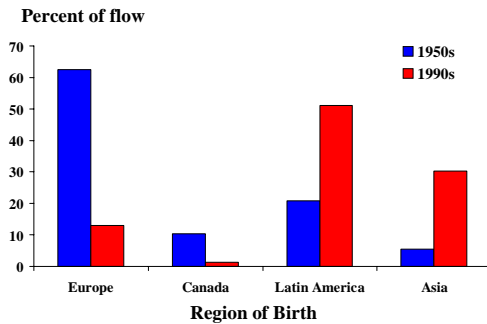
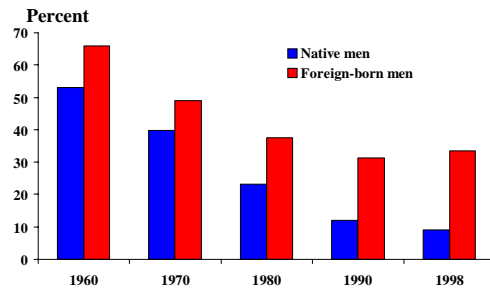


Figure 4

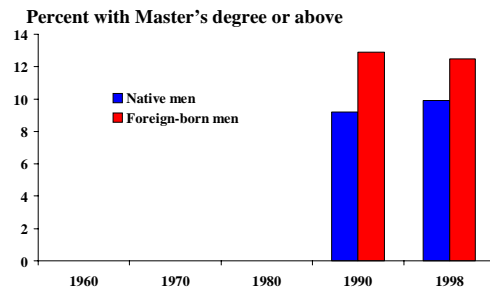
Immigrants are more likely to be high school dropouts



But, this is only part of the story. The U.S. actually attracts labor disproportionately from both extremes of the skill and education distributions. Immigrants are disproportionately likely to be high-school dropouts, but they are also disproportionately likely to have Master's degrees or above, as shown in figure 5. The movement of high-skilled labor to the U.S. is referred to by the sending countries as “brain drain.”

Figure 5

But, they are also more likely to have advanced degrees



Determinants of Immigrant Flows

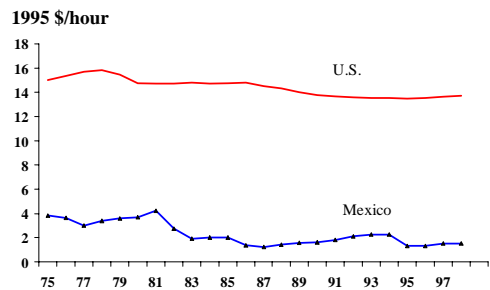
What determines the number and identity of immigrants? Economic forces, along with cultural, political, and personal factors, determine which foreigners want (and are financially able) to immigrate to the United States. Immigration policy then determines which members of this group are legally allowed to enter the country.

Economic Forces

Different economic forces attract low-skilled and high-skilled labor to the United States. The U.S. attracts low-skilled labor, because such labor is relatively scarce here. This scarcity drives up the wages of low-skilled labor, relative to developing countries in which such labor is plentiful and cheap. For example, wages in the United States are about 9 times higher than in Mexico and the gap is longstanding (figure 6).

Figure 6

U.S. wages 9 times higher than Mexico's



The attraction of high-skilled workers to the United States arises from demand as well as supply factors. Because many of the industries that require very high-skilled workers are located here, demand for these workers is high, resulting in higher salaries. Also, some high-skilled workers from Europe and Canada prefer the lower U.S. tax burden.

Policy

Of the foreigners who want and can afford to immigrate, which are legally allowed to do so? Several major laws have shaped current policy. The Immigration Act of 1965 repealed the national-origins quotas that had favored western and northern Europe and provided the catalyst for the predominantly Latin American and Asian immigrant flow that we see today. A 1986 law provided a one-time amnesty to 3 million undocumented immigrants and a 1990 law allowed more employment-related immigration.

Current law allows several groups of foreigners to immigrate, usually subject to numerical limits. With minor exceptions, it prohibits all other foreigners from immigrating. The law places a strong emphasis on family reunification and gives a much more limited role for employment-related immigration. As shown in figure 7, family-related immigration has grown sharply since 1970.

Figure 8 depicts the five major groups that are allowed to enter as permanent residents.

Figure 7

Family immigration becomes dominant as total immigration rises

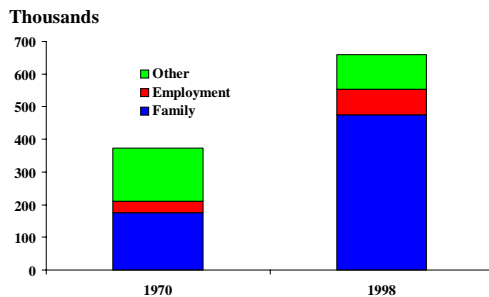
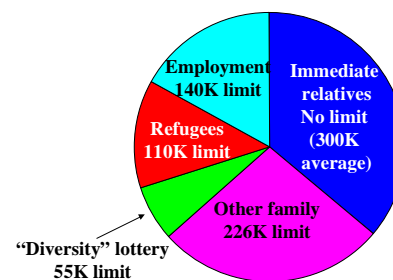


Figure 8

Most permanent-resident visas reserved for family reunification



First, unlimited entry is allowed for immediate relatives—spouses and minor children of citizens and parents of adult citizens. About 300,000 enter each year, accounting for more than one-third of legal immigration. Second, the law allots 226,000 visas for other family members—adult children of citizens, siblings of adult citizens, and spouses and children of non-citizen permanent residents. These visas are fully used, with waiting periods ranging from 16 months to 11 years. Third, 55,000 visas are assigned to “diversity” immigrants chosen in a lottery open to natives of Europe and certain other regions who have a high school education or meet a work-experience requirement. Fourth, refugees who face persecution abroad are also admitted, subject to an annual limit of about 110,000. In general, the “diversity” and refugee slots are also fully used.

The remaining 140,000 visas are for employment-related immigration—130,000 for workers, plus another 10,000 for investors with at least \$1,000,000 in capital who create at least 10 jobs. Spouses and minor children of the workers and investors count against the 140,000 limit.

The law uses complex criteria to assign these visas to workers thought to have special abilities or to fill labor shortages. Some highly skilled workers may enter without job offers. However, 80,000 of the visas are not only limited to workers with job offers, but are also subject to a cumbersome labor certification process that requires employers to advertise extensively for domestic applicants. Due to the strict criteria, the certification rules, and backlogs at the Immigration and Naturalization Service, one-third of the employment visas are unused. 40,000 workers and a few hundred investors are admitted each year, along with 50,000 family members.

Due to these difficulties, employers have increasingly turned to a wide variety of temporary-worker visas, which are separate from the above categories. Figure 9 depicts the sharp increase in these visas in recent years.

There are a variety of temporary worker visas, such as H2-As for farm workers and H2-Bs for other low-skilled workers. But, the largest and most prominent category is the H1-B visa, granted to workers in what the law considers “specialty occupations”, including many high-tech jobs. These workers generally must have a college degree and (in some cases) work experience. These visas require a job offer, but not labor certification.

A limitation of the H1-B visa program is that it is very difficult for workers to change employers. H1-B visas are now limited to 115,000 per year (not including spouses and children, who are admitted on separate H-4 visas). This cap is significantly below the demand by high-tech firms and other employers.

The Economic Performance of Immigrants

Many immigrants to the U.S. fare well here, both in terms of their own economic outcomes and in terms of contributing to the country as a whole. For example, would the Allies have won World War II if Enrico Fermi had not immigrated to Chicago and perfected the self-sustaining nuclear reaction?

As we have demonstrated, however, many immigrants today are less skilled than past cohorts of immigrants and also less skilled than natives. How do they fare in the economy as compared to natives? As figure 10 shows, how well immigrants do is related to their country of origin. European immigrants outperform natives in the labor market while Mexican immigrants work at earnings deficits that average 40%. As less-skilled workers have come to dominate immigration flows to the U.S., we can see in figure 11 that the earnings power of recent immigrants has been declining. A male immigrant arriving today can be expected to earn one-third less than a male native worker. In 1960, the difference would only have been 12%. The reasons for the wage differences are no mystery. The majority of recent immigrants are young, have lower education levels and little work experience and speak limited English.

Figure 9

Temporary worker visas surge

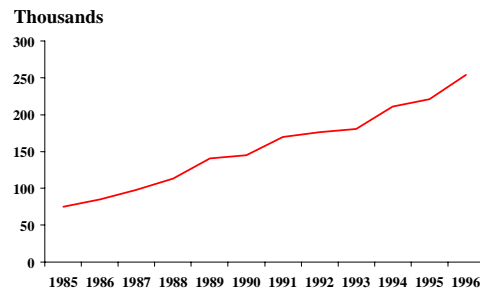


Figure 10

Wage differential related to an immigrant’s country of origin

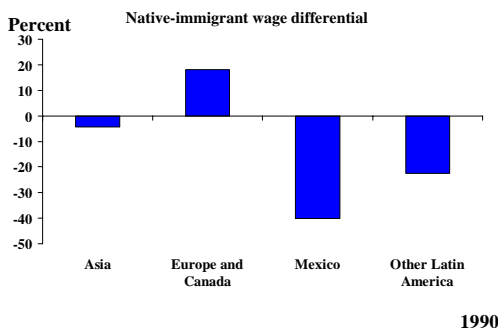
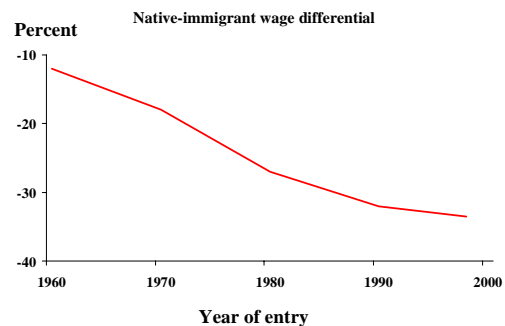


Figure 11

Recent immigrants are doing worse relative to natives



One outcome of having a limited education in a marketplace that increasingly rewards skills is ending up in the bottom of the income distribution. As you can see in figure 12, almost one-quarter of immigrants today are in the lowest tenth of the income distribution. This has increased from about 7% in 1960. Intense immigration in the past thirty years partly explains why the U.S. has experienced increased income inequality despite prevailing long-term economic growth.

So far the economic picture of most immigrants may seem bleak. The initial situation of immigrants is less troubling, however, if they assimilate and eventually achieve the economic outcomes of natives.

One encouraging sign is the high labor force participation rate of Latin American immigrants: 94% vs. 91% for natives. However, since their initial wages are lower, wage assimilation requires that immigrants' earnings grow faster than those of natives. Figure 13 suggests that immigrants experience faster wage growth, although they do not reach wage parity with average natives. If we compare them to comparable natives however, by controlling for education and English fluency, figure 14 predicts complete assimilation—wage parity with comparable natives—after 16-20 years in the U.S.¹

Figure 12

Low-skilled immigration has increased income inequality

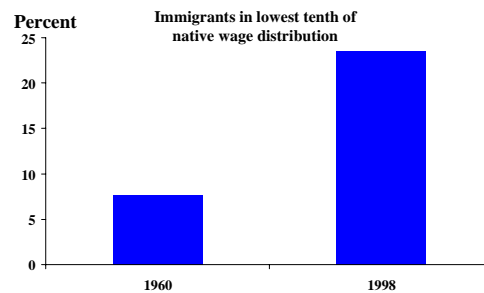


Figure 13

Most immigrants do not assimilate to average natives

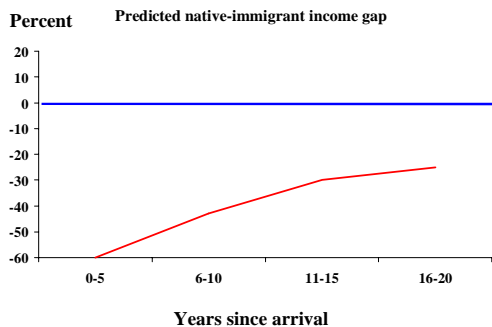
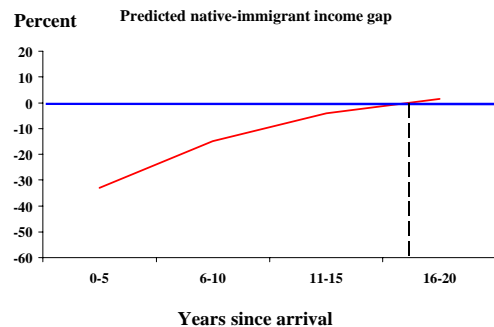


Figure 14

But they do assimilate to comparable natives



The Role of Immigration in Economic Growth

Does the individual earnings power of immigrants determine the size of their contribution to economic growth? Not exactly. Just as benefits to trade are larger between dissimilar countries, so are benefits to immigration larger when immigrants and natives differ. In fact, the more different immigrants are, regardless of whether they have less or more skills than natives, the bigger the gains to immigration. These gains cause native incomes to rise. A reasonable calculation of this increase in income puts the number at around 14 billion dollars per year (in 1997).²

¹ Figures 13 and 14 from 'Immigration Policy and the Skills of Immigrants to Australia, Canada, and the United States' by Heather Antecol, Deborah Cobb-Clarke, and Stephen Trejo. November, 1999.

² The New Americans: Economic, Demographic and Fiscal Effects of Immigration. James Smith and Barry Edmonston, editors. National Academy Press, Washington, DC 1997.

However, the gains from immigration are not distributed evenly throughout the economy. There are winners and losers. The winners include employers of immigrants who pay lower wages, consumers who pay lower prices, suppliers of goods and services to immigrants who have more customers, and skilled natives whose relative wages rise. The losers are the most vulnerable Americans, the ones most likely to compete with immigrants for jobs. They see their wages lowered, although research suggests not by much. Let's look at a couple of these effects in more detail.

As consumers, of course, we all benefit from immigration. In Texas we enjoy cheaper prices for labor-intensive goods and services precisely because we have a plentiful supply of immigrant labor. Babysitting, housekeeping, and gardening (figure 15) are all cheaper in Texas than the national average. Another effect of immigration is an increase in the demand for existing goods and services. The revival of many inner-city neighborhoods is due to the growth of immigrant enclaves and immigrant-run businesses. This has had positive effects on property values, as has increasing homeownership rates among the foreign-born (figure 16).

Figure 15

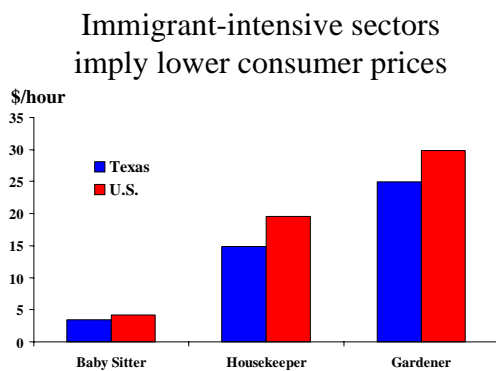
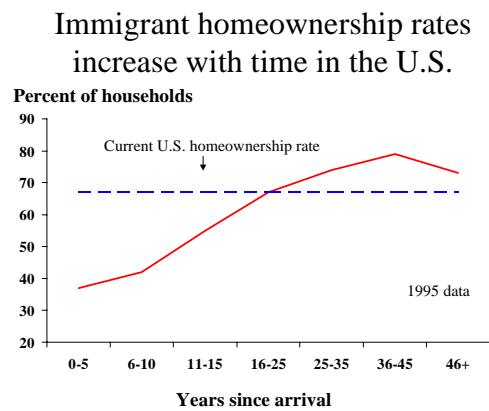


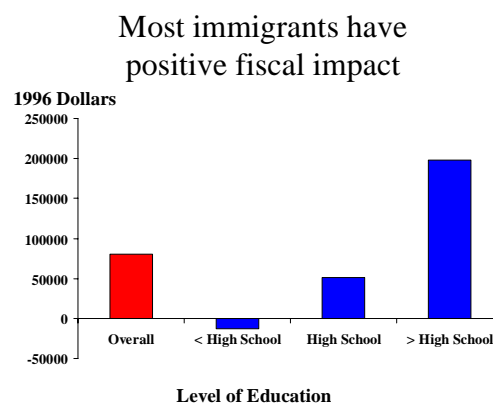
Figure 16



The Fiscal Impact of Immigration

A hundred years ago, during the first Great Migration, the discussion about immigration may have ended here with consumers and producers benefiting while some native workers lose out. There was little fiscal impact of immigrants since there was no publicly provided social safety net. Today's society, however, has commitments to an array of transfer programs as well as to public education. So do taxpayers win or lose from immigration? To figure this out, we first take the expected tax contribution of immigrants and their descendants. From this number we subtract the expected costs of public services provided to them. Public services include (but are not limited to) welfare and Medicaid as well as public schools, police, fire and public health services. As shown in figure 17, the average fiscal impact of immigrants and their descendants is positive at around \$80,000.³

Figure 17



³ Figure 17 from source in footnote 2.

This fiscal impact, however, varies by the education level of the immigrant (much as it would with a native). Immigrants with a high school degree or better and their descendants contribute more in taxes than they use up; this is how most taxpayers benefit from immigration. The fiscal impact of a low-skilled immigrant, however, is negative \$18,000. This number is low because the larger negative impact of the original immigrant is largely offset by the future contributions of his descendants. This implies that taxpayers who locate near low-skilled immigrant clusters might lose from immigration. Low-skilled immigrants use more public schools, and this is one reason for the costs they impose, but do they also use public assistance disproportionately?

Due to their higher poverty rates and larger families, immigrants are more likely to participate in assistance programs (figure 18). On average, 22% of immigrant households receive some type of assistance, compared with 15% of native households. This is not a large enough difference in welfare participation to suggest that immigrants are coming to the U.S. for the welfare payments. If they were, there wouldn't be any immigrants in Texas! To illustrate this point more clearly, we can adjust for variables such as family size, education, age and state of residence. As figure 19 shows, the adjusted welfare gap is only 2 percentage points.⁴

Figure 18

Immigrants rely more on public assistance

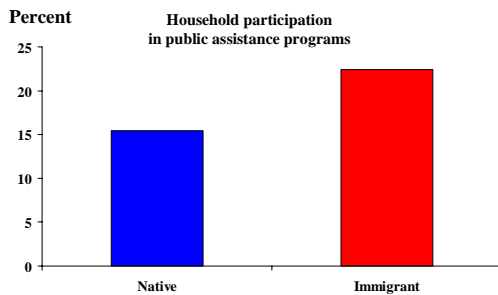


Figure 19

Adjusted welfare gap only two percentage points

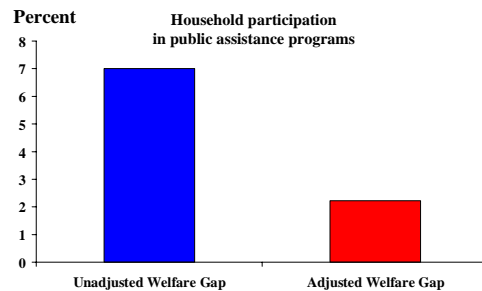
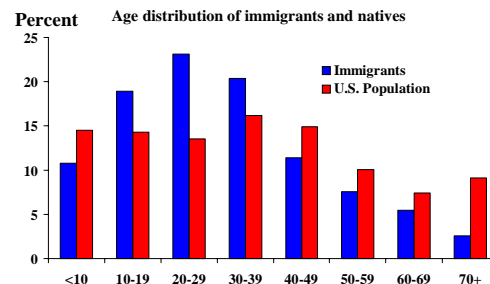


Figure 20

Immigrants are younger than natives



An important benefit from the descendants of immigrants is that they, as well as their parents, increase the labor force and help keep pay-as-you-go government programs afloat. To demonstrate this, figure 20 shows the age distribution of immigrants versus natives. Notice that 'new' immigrants are in fact over-represented in the age groups 10-39. The fact that immigrants are younger and have more children slows the deterioration of the worker-to-retiree ratio. As figure 21 indicates, this ratio will be halved in most developed countries over the next 50 years (although less so in the U.S.). We can get a glimpse of the benefit of immigration to social security from figure 22. In this simulation, allowing 50% more immigrants into the economy increases the balance of the social security trust fund and extends its solvency by two years (from 2033 to 2035). The fact that the simulation does not account for the higher fertility of immigrants suggests the true effect of increasing immigration on the trust fund is larger than that shown here.

⁴ Heaven's Door: Immigration Policy and the American Economy. George J. Borjas. Princeton University Press, Princeton, New Jersey, 1999.

Figure 21

Number of workers per retiree is declining around the world

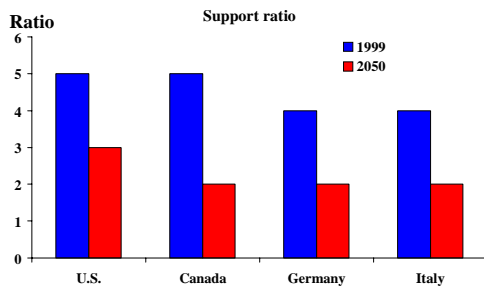
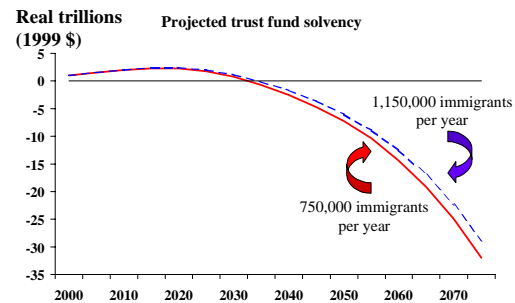


Figure 22

Immigration extends trust fund solvency



Policy Options in the Short- and Long-Run

How can policy changes address the labor shortage?

You know you have tight labor markets when the AFL-CIO is calling for amnesty for undocumented workers! This may even be a surer sign than Chairman Greenspan citing the nation's labor shortage as 'the greatest threat' to the record-long economic expansion. Immigrant labor has been an integral part of the economic boom and now the question is whether we can continue to turn to immigrants to satisfy labor demand. Today's presentation suggests that we can. Although immigration is not a free lunch, the benefits still appear to outweigh the costs at current levels of immigration.

In order to get immigration policy more in line with the needs of the marketplace, we present both short-run and long-run policy options for consideration. These options would increase the role of employment, which has been de-emphasized in existing immigration policy. In the short run, working within the existing policy framework, we suggest two things: increasing the number of employment-based visas available to foreign-born workers and simplifying the rules for obtaining and keeping those visas. There are several proposals already under consideration to achieve the first objective. These include temporarily increasing the number of H1-B visas, expanding the H2-A and H2-B programs, and instituting a guest-worker program. Chairman Greenspan, when remarking on the labor shortage, endorsed Senator Gramm's bill to increase the availability of H1-B visas, legislation that stemmed from President McTeer's insight into this topic in a *Wall Street Journal* op-ed in May of last year.

Another one of President McTeer's suggestions was to scrap the cumbersome labor certification procedures that help keep one-third of permanent employment visas from being used. We'd like to extend that argument to the temporary visa programs. Government-defined 'specialty worker' requirements exclude a majority of professions. Under the current H1-B provisions that require a college degree, the equivalent of Bill Gates wouldn't be able to immigrate to the U.S. Similarly, H2-A provisions are also strict—they require that the employer provide housing for his workers, as well as completing a labor certification process. As a consequence, the average farmer that needs to hire seasonal help is not able to do so, at least not legally. Both temporary visa programs restrict the worker to one employer, a practice that has led critics to liken them to forms of indentured labor. Clearly these processes can be streamlined and the strict rules can be scrapped. Let the market provide the incentives that determine what workers come here. Simply extending to foreign-born workers the right to switch employers would then ensure that they are paid competitive wages.

Now what about a policy scenario for the long run? We suggest working toward a common North American labor market. Viable long-run policy must satisfy labor demand at both ends of the skill distribution—low and high. While most political emphasis has been placed on shortages in the high-tech sector, the reality is that three-fourths of all new jobs in the coming decade will be in the services and retail trade industry. These growth patterns are much the same as those that were realized in the past decade. To date, illegal immigration has addressed the needs of employers where policy has fallen short. As figure 23 shows, both of our NAFTA partners rank high as source countries for illegal immigration—Mexico first and Canada fourth. Canada is plentiful in skilled labor and Mexico is plentiful in unskilled labor. Both are already coming here, legally and otherwise. The best policy response to these economic realities is to integrate our labor pools into one common North American labor market, just as European countries have done in the European Union.

Figure 23

Mexico & Canada among top senders of undocumented immigrants

