

Southwest Economy



U.S. Immigration and Economic Growth: Putting Policy on Hold

The United States takes pride in being a nation of immigrants. There is no more popular story than the one about the penniless immigrant who comes to America, works hard, overcomes adversity, and makes a good life for himself and his family. These ideals persist today as immigrants continue to contribute greatly to U.S. economic growth.

Nonetheless, the terrorist attacks of September 11 (and those preceding them) have led to the realization that not everyone who comes to this country arrives with such honorable intentions. The consequences have been heightened security at ports of entry, stricter background checks on visa applicants, requirements for tamper-proof and machine-readable passports and visas, and a host of other changes, many of them yet to come.

This article discusses immigrants' economic contributions and how these recent changes impact both the foreign-born population already living here and those trying to enter the United States. Despite the common perception that 9/11

(Continued on page 2)

How Low Interest Rates Impact Financial Institutions

In recent years, the Federal Reserve has aggressively pushed down short-term interest rates to prevent the price level from falling. This has been done as part of the Fed's strategy to promote an atmosphere of price stability, essential to maintaining sustainable economic growth. The Federal Open Market Committee has publicly indicated it expects the overnight federal funds rate, which affects short-term interest rates, to remain low for a considerable period. This article discusses the impact low interest rates have on financial institutions, as part of a series examining the conduct of monetary policy at low interest rates.¹

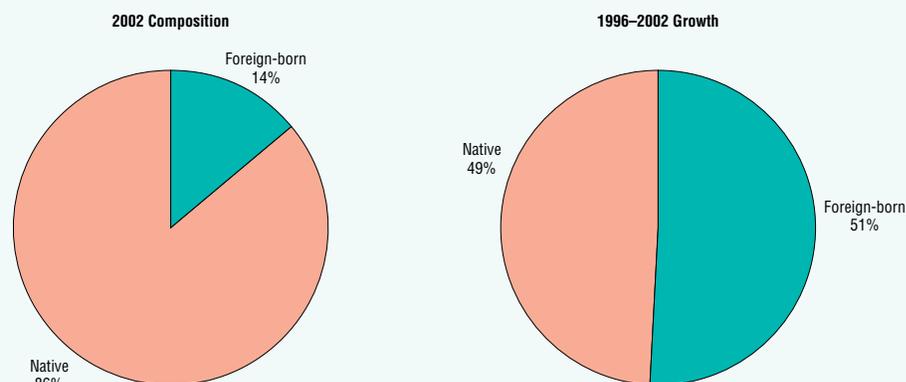
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INSIDE:

*Do What You Do Best,
Outsource the Rest?*

Chart 1

Foreign-Born Share of U.S. Labor Force and Labor Force Growth



SOURCES: U.S. Census Bureau, based on Current Population Survey data, and author's calculations.

The flow of foreign-born is so large that immigrants currently account for a larger share of labor force growth than natives.

triggered a crackdown on immigration (the enactment of the USA Patriot Act, the reorganization of the Immigration and Naturalization Service into Homeland Security, and other changes), pre-9/11 policies actually constituted a much more substantive effort in this direction. The post-9/11 period is most striking for the lack of change. Significant immigration reform pending before the terrorist attacks was taken off the table and remains on indefinite hold.

Immigrants' Contribution to Economic Growth

The pace of recent U.S. economic growth would have been impossible without immigration. Since 1990, immigrants have contributed to job growth in three main ways: They fill an increasing share of jobs overall, they take jobs in labor-scarce regions, and they fill the types of jobs native workers often shun. The foreign-born make up only 11.3 percent of the U.S. population and 14 percent of the labor force. But amazingly, the flow of foreign-born is so large that immigrants currently account for a larger share of labor force growth than natives (*Chart 1*).

In the 1990s, the labor force grew by 16.7 million workers, 6.4 million—or 38 percent of them—foreign-born. The majority of foreign-born workers (4.2 million) came during the boom of 1996–2000, when their share of job growth shot up to 44 percent. In essence, immigrants filled four of every 10 job openings at a time when the

unemployment rate hit record lows.¹

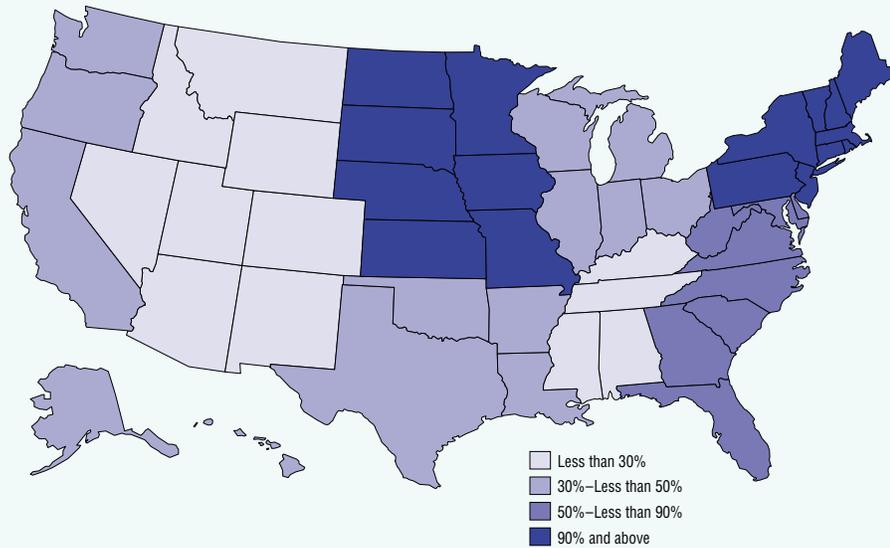
Due to the weak economy, job growth has slowed since 2000 and so has the growth of the labor force. Nonetheless, the foreign-born share of growth has risen, and it reached 51 percent of the total between 1996 and 2002. This share has increased in the slow economy because natives typically have more options, and during periods of weak job growth, they can exit the labor force and pursue other alternatives, such as going back to school.

Despite the weak economy, immigrant workers have held up well in the recession. Between 2000 and 2002, the foreign-born unemployment rate rose 2 percentage points to 6.9 percent. This compares favorably with the native unemployment rate, which rose 1.8 points to 6.1 percent.

The number of jobs immigrants fill is important, but where these jobs are filled is also important. In the 1990s, there was large-scale geographic dispersion among recent immigrants. Whereas in earlier years most new immigrants from Latin America and Asia clustered in a few large cities—such as Los Angeles, New York and Chicago—the '90s witnessed a spread to the western Midwest, New England, and the Mid- and South Atlantic regions. In some parts of the country, almost all labor force growth between 1996 and 2000 was due to immigration. As *Chart 2* shows, in the western Midwest, New England and Mid-Atlantic regions, the foreign-born accounted for more than 90 percent of employment growth.²

Chart 2

Foreign-Born Share of Labor Force Growth by Region, 1996–2000



SOURCE: Bureau of Labor Statistics, *Monthly Labor Review*, May 2002, Abraham T. Mosisa.

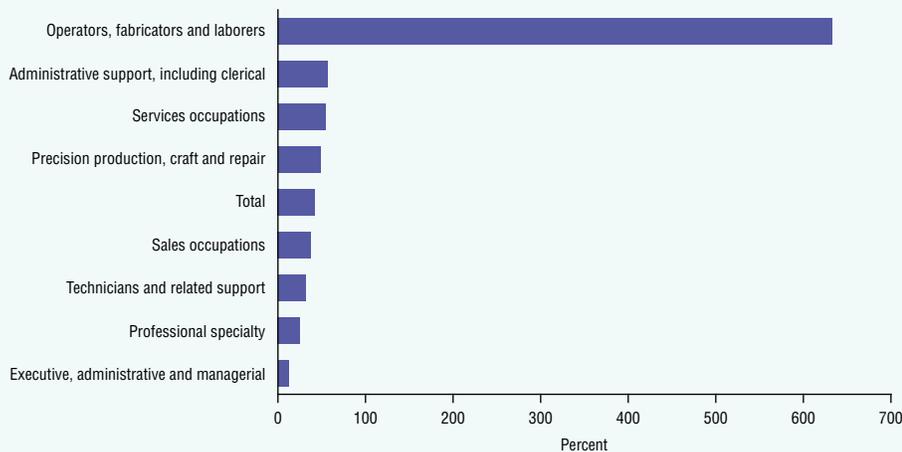
A large percentage of immigrants have less than a high school education.

Meatpacking, for example, drew thousands of immigrants to the Midwest, and poultry processing did the same in the South Atlantic states. Jobs in these two industries exemplify the type of jobs new immigrants commonly fill—low-skill, blue-collar jobs. This is because a large percentage of immigrants have less than a high school education. About 33 percent of immigrants have not finished

high school, compared with 13 percent of natives. Chart 3 shows the share of employment growth in each job category attributed to foreign-born workers in 1996–2000.³ Immigrants overwhelmingly filled blue-collar jobs (operators, fabricators and laborers) but also accounted for as much as half the growth in categories such as administrative support and services. The more than sixfold growth in

Chart 3

Foreign-Born as a Percentage of Employment Change by Occupation, 1996–2000



NOTE: Numbers are based on annual averages.

SOURCE: Bureau of Labor Statistics, *Monthly Labor Review*, May 2002, Abraham T. Mosisa.

The foreign-born are both less apt to come and more likely to leave when the U.S. economy is doing poorly.

Chart 4

Illegal Immigration Responds to Growth Slowdown and 9/11 Monthly Apprehensions Along Southwest Border

Thousands (seasonally adjusted)



NOTE: Shaded area denotes 2001 recession.

SOURCE: Homeland Security Department, Office of Immigration Statistics.

the laborer category reflects that many immigrants are not only low-skilled compared with natives but that their skills do not transfer easily to the U.S. workplace. It also means that as immigrants entered these occupations, native workers exited.⁴

When employment is not growing—largely the case since early 2001—immigration naturally slows. The foreign-born are both less apt to come and more likely to leave when the U.S. economy is doing poorly. Current Population Survey data indicate that while the immigrant population increased 6.1 percent between 2000 and 2001, it rose only 2 percent between 2001 and 2002. One indicator of illegal immigration—the number of migrants apprehended at the U.S.–Mexico border—also shows a drop at the beginning of 2001 (*Chart 4*). Because these immigrants are not delayed by visa processing, the changes in apprehensions move closely with the strength of the U.S. economy relative to Mexico's. The drop in early 2001 coincides with the onset of the recession that March. The decline in apprehensions intensifies in midsummer and more so following the September 11 attacks. In October 2001, apprehensions hit a low of 44,619. The fact that they are nowhere near where they were in the late 1990s indicates how the volume of immigration has adjusted to the jobless recovery.

Immigration and Monetary and Fiscal Policy. The fact that it fluctuates with

the business cycle is one way immigration facilitates the work of monetary policymakers. By providing workers when and where they are needed, immigration raises the speed limit of the economy by keeping wage and price pressures at bay. In 2000, at the height of the economic boom, Fed Chairman Alan Greenspan attributed the U.S. economy's remarkable growth record to two main factors: productivity growth and labor force growth. Both factors held down unit labor costs and allowed the economy to grow faster with less inflation, thereby reducing the need for the Fed to intervene by tightening interest rates to slow growth.

In the long run, immigrants also have a beneficial effect on the fiscal health of pay-as-you-go government programs, such as Social Security and Medicare. Because immigrants are younger than natives on average and have higher fertility rates, immigration decelerates the aging of the population. This slows the ongoing decline in the ratio of workers to retirees and helps maintain the solvency of these programs.⁵

Immigration Policy Changes

The crackdown on immigration came long before 9/11. In fact, the impact of post-9/11 legislation on immigration has been limited so far. The biggest impact of 9/11 on immigration policy is that significant reform—pend-

ing before the attacks—has been dropped from the political agenda. The best example is President Bush's proposal for a guest-worker program. If passed, it would have regularized the status of millions of unauthorized Mexican workers.

Immigration Policy Pre-9/11. Two trends emerged in the 1990s: a crackdown on illegal immigration and a move to limit the rights of noncitizen immigrants. To counteract a resurgence in illegal immigration in the mid-'90s, the federal government poured unprecedented resources into the Border Patrol in terms of both personnel and technology. Between 1994 and 1999, the number of hours policing the border—Border Patrol linewatch hours—more than tripled. As enforcement rose, smugglers' fees increased rapidly. Data gathered from surveys of Mexican migrants indicate smugglers' prices rose from about \$500 in 1993 to \$1,000 in 1998. Today, migrants reportedly pay about \$1,500 to \$2,000 for a typical crossing.

The Illegal Immigration Reform and Immigrant Responsibility Act (IIRIRA), passed in 1996, was instrumental in the crackdown on illegal immigration. The law added Border Patrol agents, allowed the removal of illegal immigrants without a hearing or judicial review, and greatly expanded the definition of deportable crimes. The expanded definition was applied retroactively to cover crimes that were not deportable at the time they were committed. As a result, deportations of criminal aliens—both legal and

illegal immigrants—more than doubled between 1996 and 1998, rising from roughly 80,000 to 180,000.

The passage of IIRIRA reflects the move toward limiting the rights of noncitizens. The Welfare Reform Act, passed the same year, also reflects this trend. This law made most legal immigrants ineligible for federal public assistance programs such as food stamps and Supplemental Security Income. A consequence of these laws was a sudden surge of eligible immigrants applying for citizenship, reversing a long trend of declining citizenship rates among legal immigrants. As Chart 5 shows, applications for citizenship peaked at 1.4 million petitions in 1997, just after the 1996 laws were implemented.⁶ Applications rose again after 2001.

Immigration Policy Post-9/11. Compared with the immigration laws passed in the 1990s, changes affecting immigration since 9/11 have been more subtle and indirect.⁷ Three important acts were passed in the wake of September 11—the USA Patriot Act, Enhanced Border Security Act and Homeland Security Act of 2002. The acts do not speak to immigration per se but are directed at more carefully screening and monitoring of foreigners who want to temporarily visit the United States.

The most important changes so far have been stricter background checks for visa applicants and requirements for tamper-proof, machine-readable travel documents. U.S. consulates have raised their fees, and wait times for visa approvals have gone from less than one month to several months in some cases. Individuals are paying more and are more likely to be denied entry. U.S. companies are complaining that the new procedures hamper their ability to compete for foreign business because they are unable to arrange for their customers to travel to the United States in a timely way. This problem is particularly bad in fast-growing markets in countries that require a U.S. visa, such as China, India and Russia.

The more lengthy and expensive process has led to drastic declines in visas issued to tourists and businesspeople. There has been a 37.4 percent drop in these B1/B2 visas—from 3.5 million visas in 2001 to 2.2 million in 2003

(Chart 6). The weak global economy has likely contributed to the drop, as did the war in Iraq, but the main underlying factor is the stepped-up screening of applicants required by the new laws.

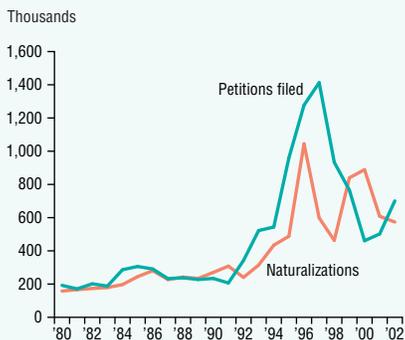
Although the decline in visas is large, it does not translate into an equivalent drop in foreign visitors. Many millions more come from countries in the visa waiver program, whose citizens are exempt from visa requirements. Temporary visitor admissions dropped 17.3 percent between 2001 and 2002. (2003 data are not yet available.)

Two other groups have also been impacted by stricter procedures: foreign students and refugees. Background checks on foreign students and stricter requirements on the universities and schools that admit them have reduced the number of student visas issued (Chart 7). The United States issued 298,730 student visas in 2001, compared with 219,851 in 2003, a fall of 26 percent over two years. Refugee resettlement has also slowed substantially. Whereas 89,726 refugee applications were filed in 2002, only 18,652 were approved, a 72 percent decline from 2001 (Chart 7). The decline in approvals stems in part from stricter security provisions on natives of countries linked to terrorism, such as Sudan and Somalia.

Interestingly, while the impact on the number of foreigners able to enter the United States temporarily has been substantial, there has been no slowdown in the number of foreigners granted permanent legal status. About 1.1 million

Chart 5

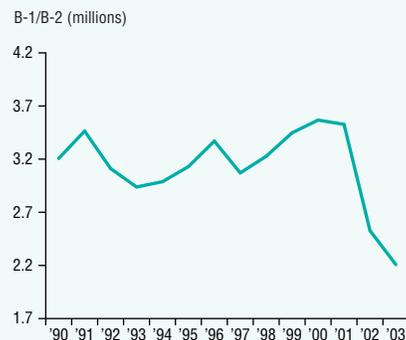
Immigrants File for U.S. Citizenship



SOURCE: Homeland Security Department, *Yearbook of Immigration Statistics*.

Chart 6

U.S. Visas Issued for Business and Pleasure

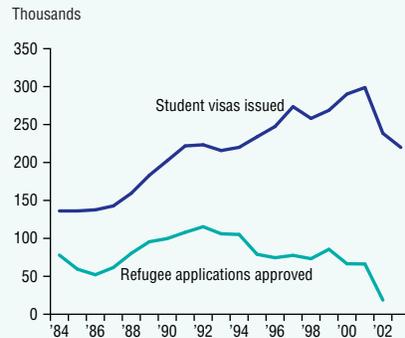


SOURCE: State Department, Office of Visa Services.

The size of the flows and stock of unauthorized immigrants from Mexico speak to their importance from both a policy and an economic perspective.

Chart 7

Student Visa and Refugee Approvals Decline After 9/11



NOTE: 2003 student visa numbers are preliminary.
 SOURCES: State Department, Office of Visa Services; Homeland Security Department, *Yearbook of Immigration Statistics*.

green cards were issued in 2001 and again in 2002 (*Chart 8*). Nevertheless, since a share of legal immigration typically originates from foreign students, refugee resettlement and, to a smaller extent, visits by tourists and businesspeople, declines in these categories should eventually lead to fewer permanent immigrants, all other things equal.

Putting Policy on Hold. In one tragic day, Sept. 11, 2001, the prevailing sentiment turned from pro-immigration and free trade to closing the borders. One immigration think tank declared immigration reforms now dead on arrival. The most significant immigration reform on

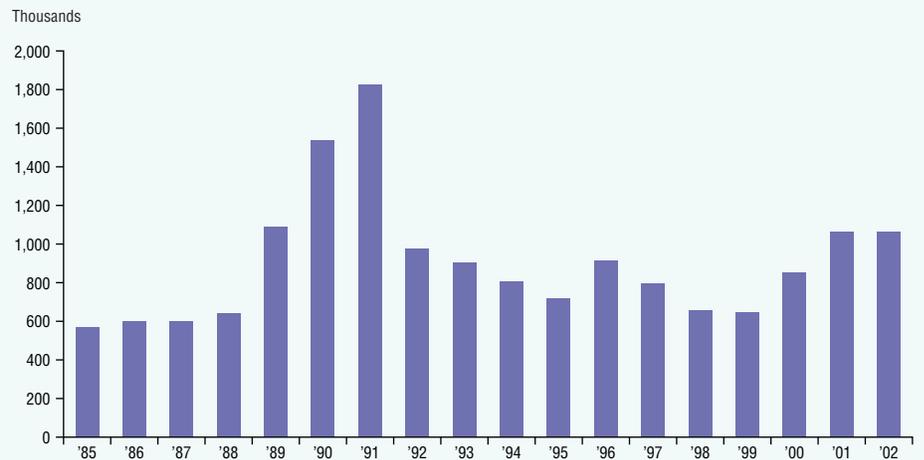
the table at the time was President Bush's proposed guest-worker plan. During a visit to the White House just six days before the terrorist attacks, President Fox of Mexico and President Bush seemed very close to reaching an agreement that would have provided work permits for about 4 million unauthorized Mexicans living in the United States.

The size of the flows and stock of unauthorized immigrants from Mexico speak to their importance from both a policy and an economic perspective. Net migrant inflows are estimated to have numbered between 400,000 and 600,000 each year in the 1990s. Although they have since slowed due to the recession, the population of undocumented immigrants from Mexico is currently estimated at more than 4.8 million.⁸

Another example of immigration policy that will likely not get much play by lawmakers in the current environment is an increase in the H1-B cap. The H1-B program provides once-renewable three-year work permits for foreign professionals hired by U.S. firms and universities. In 2001, the 115,000 annual cap on H1-B visas was raised to 195,000 (*Chart 9*). But the change was temporary, and on Oct. 1, 2003, the cap reverted to the original 1992 cap of 65,000 visas. According to immigration lawyers, with approximately 20,000 visa applications carried over from fiscal 2003, the current visa allotment will be exhausted by early 2004.

Chart 8

Green Cards Remain Steady in 2001–02

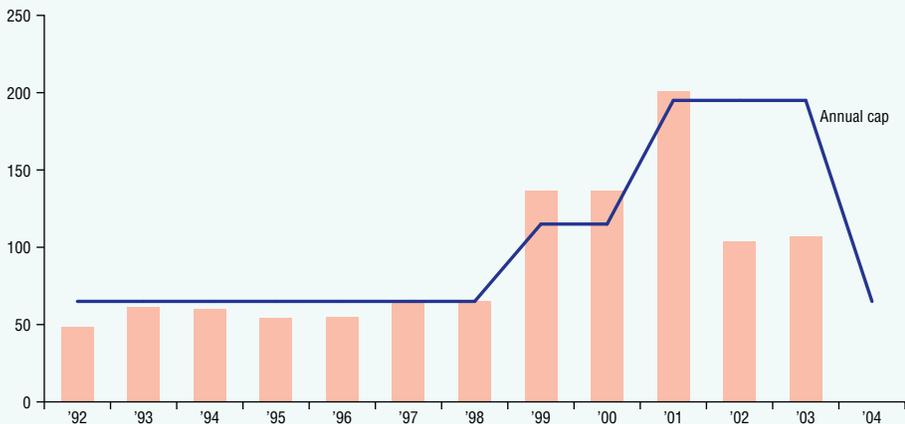


SOURCE: Homeland Security Department, *Yearbook of Immigration Statistics*.

Chart 9

H1-B Visas Will Run Out in Early 2004 Under Lower Cap

Visas (thousands)



SOURCE: Homeland Security Department, *Yearbook of Immigration Statistics*.

Implications for the Future

The economic contributions of immigrants are enormous. With immigrants filling such a significant share of job openings, it is clear the pace of U.S. employment growth is closely tied to the pace of immigration. Official post-9/11 changes have reduced entries of temporary visitors and foreign students and are negatively impacting travel to and from the United States, but it is still unclear what they will mean for the level of permanent immigration. If new policies deter future immigration, this has to be evaluated with respect to national security and economic concerns.

Meanwhile, post-9/11 political sentiment is having a significant effect on immigrants already here. Potentially beneficial reforms, such as a guest-worker program or a higher H1-B visa cap, have been put on indefinite hold. States are attempting to tackle some immigration issues on their own, such as driver's licenses and college tuition for undocumented residents.

Immigration policy not only determines how effectively the United States can compete for foreign workers but also their socioeconomic progress after they have arrived. Both aspects are important to future economic growth. Both also require these policies to be implemented, not just left to languish.

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Notes

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¹ This article uses the terms *immigrant* and *foreign-born* interchangeably. Unless otherwise specified, immigrant refers to anyone residing in the United States who was born abroad of non-U.S. citizens, including illegal immigrants and temporary workers.

² Abraham T. Mosisa, "The Role of Foreign-Born Workers in the U.S. Economy," *Monthly Labor Review*, May 2002, pp. 3–14.

³ Mosisa 2002.

⁴ In this case, 664,000 foreign-born workers entered while 559,000 natives exited, for a net gain of 105,000.

⁵ For a more detailed account of the fiscal impact of immigrants, see Pia Orrenius and Alan Viard, "The Second Great Migration: Economic and Policy Implications," Federal Reserve Bank of Dallas *Southwest Economy*, May/June 2000.

⁶ Many factors underlie the surge in naturalizations, not just the new legislation. For example, many immigrants legalized in the 1986 amnesty became eligible for citizenship in the mid-1990s.

⁷ The exception is the treatment of certain immigrants from predominantly Arab or Muslim countries. The crackdown on foreign-born from countries linked to terrorism resulted in hundreds of detentions, deportations and a registration program. Until recently, visitors from many of these countries were required to register with U.S. Citizenship and Immigration Services during their stay.

⁸ The number of undocumented Mexican immigrants was 4.8 million in 2000, according to "Estimates of the Unauthorized Immigrant Population Residing in the United States: 1990–2000," Office of Policy and Planning, Immigration and Naturalization Service, January 2003.

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