

The Economics of Immigration

Congress is considering various proposals for immigration reform this year. Pia Orrenius, a Dallas Fed senior economist and immigration expert, discusses the economic aspects of the growing number of foreign-born workers, including their effects on the U.S. economy, government budgets, and native-born Americans' jobs and earnings.

Q: What can you tell us about the size of the immigrant population in the United States?

A: Immigrants make up about 12 percent of the overall population, which means about 36 million foreign-born live in the United States. The commonly accepted estimate for the undocumented portion of the foreign-born population is 11 million. Immigrants come from all parts of the world, but we've seen big changes in their origins. In the 1950s and 1960s, 75 percent of immigrants were from Europe. Today, about 75 percent are from Latin America and Asia. Inflows are also much larger today, with 1 million to 2 million newcomers entering each year.

What's interesting about the United States is how our economy has been able to absorb immigrants and put them to work. U.S. immigrants have high employment rates compared with other developed countries. This is partly because we don't set high entry-level wages or have strict hiring and firing rules. In this type of flexible system, you have more job openings. You have more opportunities. You also have lower entry-level wages, but immigrants at least get their foot in the door.

Being in the workforce allows immigrants to interact with the rest of society. They learn the language faster, pay taxes and become stakeholders.

Q: Where do immigrants fit into the U.S. economy?

A: Our immigrants are diverse in economic terms. We rely on immigrants for both high- and low-skilled jobs. Some immigrants do medium-skilled work, but more than anything else they're found on the low and the high ends of the education distribution.

The economic effects are different



depending on which group you're talking about. We have an extremely important group of high-skilled immigrants. We rely on them to fill important, high-level jobs in technology, science and research. About 40 percent of our Ph.D. scientists and engineers were born in another country. We also employ many high-skilled immigrants in the health sector.

High-skilled immigration has good economic effects—it adds to GDP growth. It also has beneficial fiscal effects—the impact on government finances is large and positive. People tend to focus on illegal or low-skilled immigration when discussing immigrants and often do not recognize the tremendous contribution of high-skilled immigrants.

Q: What about the low-skilled immigration?

A: With low-skilled immigration, the economic benefits are there as well but have to be balanced against the fiscal impact, which is likely negative.

What makes the fiscal issue more difficult is the distribution of the burden. The federal government reaps much of the revenue

from immigrants who work and pay employment taxes. State and local governments realize less of that benefit and have to pay more of the costs associated with low-skilled immigration—usually health care and educational expenses.

Q: Does it matter whether the immigration is legal or not?

A: If you're making value judgments about immigrants, or if you're discussing national security, you probably need to distinguish between those who come legally and those who don't. From an economic perspective, however, it makes more sense to differentiate among immigrants of various skill levels than it does to focus on legal status.

The economic benefits of low-skilled immigrants aren't typically going to depend on how they entered the U.S. Illegal immigrants may pay less in taxes, but they're also eligible for fewer benefits. So being illegal doesn't mean these immigrants have a worse fiscal impact. In fact, a low-skilled illegal immigrant can create less fiscal burden than a low-skilled legal immigrant because the undocumented don't qualify for most benefits.

Q: How does immigration affect jobs and earnings for the native-born population?

A: We focus a lot on that—for example, exactly how immigration has affected the wages of Americans, particularly the low-skilled who lack a high school degree. The reason we worry about this is that real wages have been falling for low-skilled U.S. workers over the past 25 years or so.

The studies tend to show that not much of the decline is due to inflows of immigrants. The consensus seems to be that wages are about 1 to 3 percent lower today as a result of immigration. Some scholars find larger effects for low-skilled workers. Still, labor economists think it's a bit of a puzzle that they haven't been able to systematically identify larger adverse wage effects.

The reason may be the way the economy is constantly adjusting to the inflow of

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immigrants. On a geographical basis, for example, a large influx of immigrants into an area tends to encourage an inflow of capital to put them to use. So you have a shift out in labor supply, but you also have a shift out in labor demand, and the wage effects are ameliorated. At the same time, the native labor supply is changing. We have fewer and fewer low-skilled workers, largely because older workers, who are more likely to lack a high school degree, are retiring and leaving the labor force. In that way, low-skilled immigrants are filling a disappearing niche in our native labor force. So that, too, might work against finding large wage impacts.

Q: Is it all about wages?

A: Economic models say people move in response to wage differentials, and that’s pretty much it. When wage differentials shrink, migration should slow. Sociologists have long pointed out, however, that other dynamics affect immigration, such as family reunification, risk diversification, security and access to financial markets.

Workers are more likely to migrate if patterns have been established to help them make their way to the foreign workplace. In Mexico over the past 15 years, for example, we’ve seen increased migration to the U.S. even as living standards in Mexico improved slightly. Because of the networks and migra-

tion flows in place, it’s going to take longer before a small shrinkage in the wage gap results in a decline in immigration.

Q: What about the American Dream of immigrants coming to this country, working hard and prospering? Is it still alive?

A: Most immigrants start out behind the native-born because they don’t have the advantages of growing up in this society. As they learn, their wages grow. Within the same generation, you should find that immigrants assimilate to natives with similar characteristics—job, age, education and such. So a high school dropout immigrant will likely achieve the wage outcomes of a native high school dropout. However, if you don’t take into account education, you don’t see the same economic assimilation. Mexican immigrants who lack a high school degree don’t achieve the average wages of natives once they come to the U.S., even after 10 to 15 years.

What we want over generations is for the children of immigrants to achieve the same education and incomes as average natives. You do see that for many groups. Our biggest concern is with Hispanic immigrants, because they’re the ones coming in with the lowest education levels.

While the great majority of children of Hispanic immigrants do well, their summary statistics aren’t as favorable. This is because in the second and third generation they still have twice the high school dropout rate as other natives. So a fraction of these immigrants and their children aren’t assimilating even over generations. They’re not achieving overall U.S. averages in education and wages as much as they’re assimilating to Hispanic averages, which are lower.

Q: What are the likely economic effects of a guest-worker program?

A: A guest-worker program would likely have

two components, addressing existing and new migrants. Incorporating illegal immigrants who are already here and working, while controversial, would not have large economic effects. These immigrants have already had a labor-market impact. They’ve already had a fiscal impact. Because they’ve been working here, we’re not going to suddenly have a big wage impact or see native workers displaced.

What might change is that they would get temporary legal status in the U.S., and they’d be able to get driver’s licenses and open bank accounts. It would make their lives easier. It really wouldn’t worsen the fiscal situation because, as guest workers, the immigrants presumably wouldn’t be eligible for more public benefits than they are now.

The economic effects of legalizing new migrant workers is more complicated. If the program simply institutionalizes the existing stream of undocumented workers, economic and fiscal effects will be much what they are today. In fact, depending on how it’s implemented and how employers are impacted, a guest-worker program combined with stricter enforcement could actually serve to reduce the demand for immigrant labor.

If the program comes with fees on employers and workers or if employees who were off the books are now going to be contributing employment taxes, the program would raise the cost of immigrant workers. This would increase the relative demand for native-born workers. If there is no cap on the number of new workers coming in or other measures to limit the guest-worker inflows, then increases in labor supply could negate any benefit for natives.

