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Immigration and the Economy—Part I

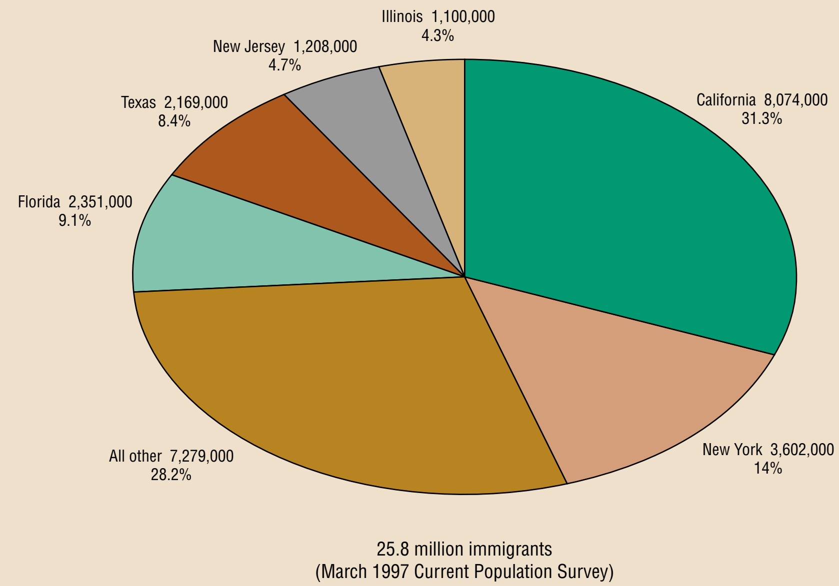
FOR GENERATIONS BOTH past and present, the story of America is one of immigration. There is no better reminder of this than the Statue of Liberty, which extends the invitation, "Give me your tired, your poor, your huddled masses yearning to breathe free…," to immigrants from around the world. Yet the role of immigration in the U.S. economy is not easy to decipher. Among the many questions immigration researchers grapple with are (1) what motivates immigrants to come to the United States, (2) how do immigrants from different countries fare once they arrive and (3) what are the costs and benefits of immigration.

To foster understanding on these issues, the El Paso Branch of the Federal Reserve Bank of Dallas hosted the conference, "Immigration and the Economy."[1] This article is the first in a two-part series addressing the complex issue of immigration that draws upon the ideas discussed at the conference. Part I introduces the framework under which immigration discussions often fall; Part II will focus on the costs and benefits of immigration—at both the national and regional levels.

Immigration: The Numbers

More than a million people a year immigrate to the United States. About 850,000 of these are immigrants who have been admitted for

Chart 1
States Where Immigrants Are Concentrated



SOURCE: The Urban Institute.

Immigrants provide labor services to businesses in destination countries and often return a portion of what they earn to their home countries in the form of remittances.

permanent residence. Another 250,000 are undocumented immigrants who make their way into the population numbers.[2] About 40 percent of such immigrants first entered the country legally—as students, tourists, short-term employees—but have since overstayed their allotted time.[3] In all, about 25 million immigrants are living in the United States—an all-time high; however, as a percentage of the population, the share of immigrants is well below its historical high. From 1870 through 1920, 13 percent to 15 percent of the U.S. population consisted of immigrants. Today, that proportion is only 9.3 percent.[4]

Immigrants are highly concentrated in certain areas of the United States; almost a third live in California. Texas ranks fourth, with 8.4 percent of the immigrant population (*Chart 1*).[5] Because immigrants are concentrated within so few states, assessing both the national and regional impact of immigration is crucial.

Immigration as Trade

Immigration can be seen as a form of international trade. Immigrants provide labor services to businesses in destination countries and often return a portion of what they earn to their home countries in the form of remittances. Similar to the benefits of free trade in goods, both the immigrant-receiving countries and the immigrant-sending countries can benefit from this trade in human capital.[6] For example, one of the main benefits of free trade in goods is that the increased competition leads to lower consumer prices. Likewise, the increased competition for jobs brought about by immigration—or free trade in labor—can decrease the cost of goods imported laborers are relatively better able or more willing to produce than are native workers. It also allows the native population to shift to activities for which they have a comparative advantage.

Many countries, such as Mexico, Portugal, Turkey and Egypt, reap the benefits of having exported migrants. In 1996, for example, families and businesses in Mexico received about $4.2 billion in remittances from Mexican nationals living and working in other countries. Countries such as Saudi Arabia and the United States, which receive a large fraction of the world's immigrants, benefit from the labor services provided by immigrants. Immigrants in these countries pay a large fraction of the world's remittances (*Chart 2*).[7]

Why Do People Migrate?

The most obvious reason people migrate is that they expect to be better off—either socially or economically—if they move to another country. About 100,000 immigrants a year are admitted to the United States for humanitarian reasons. Their motivation for leaving their home country is clear: they are refugees and asylum seekers fleeing persecution, discrimination or oppression.[8]

For the remainder of immigrants, the traditional view is that migration decisions are motivated by income differences across borders. This incentive is probably stronger than in the past, as the income gap between the richest and poorest countries has risen substantially, from a ratio of 38-to-1 in 1960 to 52-to-1 in 1985.[9] Thus, higher incomes in immigrant-receiving countries could be a factor that increases migration.

Similarly, changes in real wages between two countries can affect the incentive to migrate. Recent research using data on apprehensions of illegal (or undocumented) immigrants attempting to cross the U.S.–Mexican border concludes that the number of apprehensions corresponds to changes in Mexican and U.S. wages. Increases in Mexican real wages result in a decline in apprehensions at the border, while increases in U.S. real wages result in an increase in apprehensions. Interestingly, it is the purchasing power of the U.S. dollar in Mexico, more than its purchasing power in the United States, that results in a change in border apprehensions. The fact that migrants to the U.S. care about the purchasing power of the dollar in Mexico suggests that prospective migrants expect to remit a portion of their earnings to Mexico.[10] Economic crises that affect wages—such as the severe devaluations that have plagued Latin American countries and, more recently, countries in Asia—can become factors that significantly influence migration decisions.

Migrant Networks Are Important

The argument that migration decisions are based primarily on wage and income differentials is compelling. However, research suggests that while these differentials may provide the initial impetus for immigration, the creation of family and social networks in immigrant-receiving countries has become more significant as a factor influencing further immigration. Once the process of immigration has begun, there seems to be a strong tendency for it to become self-perpetuating.[11]

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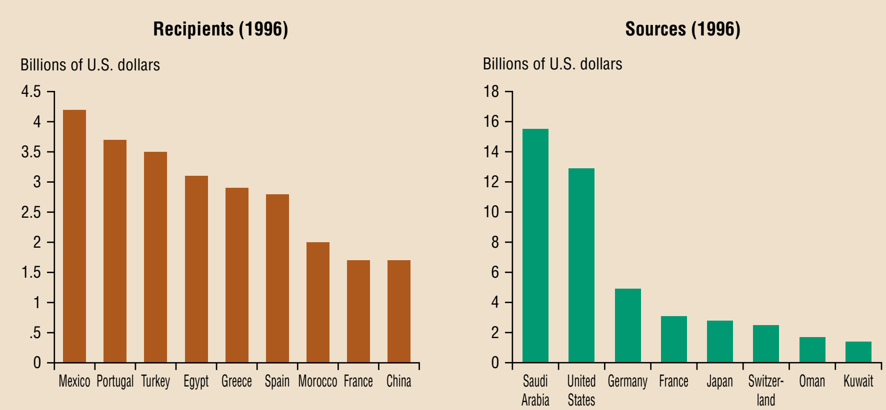
Chart 2
Recipients and Sources of the World's Remittances



SOURCE: International Monetary Fund, Balance of Payments Statistics Yearbook, 1997.

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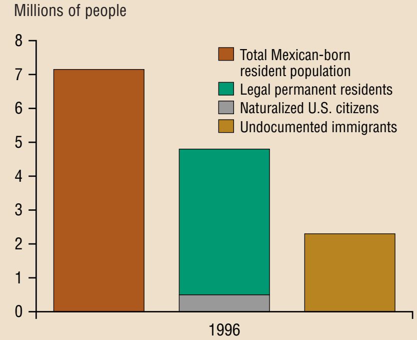
Immigration from Mexico

Mexico is the No. 1 source of immigrants to the United States. This is not surprising given geography and economics. The two countries contrast dramatically in earnings and income levels. With a joint border of 2,000 miles and significant income disparity, international migration would seem inevitable. Just as Mexican migrants are drawn to the United States in search of economic improvement, the U.S. labor market draws on these migrants as a source of readily available and inexpensive labor.

MEXICAN-BORN RESIDENT POPULATION IN THE UNITED STATES, 1996



SOURCE: Mexico–U.S. Binational Study on Migration.

Mexico-to-U.S. migration is closely linked to periods of economic necessity in each country. For example, the United States recruited Mexican workers when it suffered labor shortages during World Wars I and II. In fact, the *Bracero* program, a binational initiative launched in 1942, was so successful in filling the U.S. need for seasonal agricultural workers that it lasted more than 20 years. Correspondingly, periods in Mexico of high inflation and economic recession have prompted the movement north of some of the country's labor force. Recent trends in migration, though still largely motivated by economic factors, are sustained and facilitated through a growing family and social network in the United States. In addition, as enforcement efforts at the border have grown, migrant-smuggling operations have become more established and sophisticated, perpetuating a steady flow of undocumented immigrants to the United States. For example, a recent study estimated that approximately 70 percent of successful crossings by such immigrants from Tijuana to San Diego in 1996 took place through smugglers.*

In the past, dialogue on migration between the United States and Mexico was not easy, as the United States usually opted for unilateral decisions on the matter, while Mexico traditionally adopted a stance of nonintervention. However, the 1990s brought a change in this regard as bilateral dialogue on migration has increased, largely fueled by the institutional framework of cooperation embedded in NAFTA. In fact, in 1994, the two governments decided for the first time to sponsor a binational study on migration, which was published last year. This type of thorough, cooperative analysis of migration could lead to a better understanding of the subject and to mutually beneficial policies that address the issue.

* B. Lindsay Lowell, Director of Policy Research, U.S. Commission on Immigration Reform; presentation on the Mexico–U.S. Binational Study on Migration at the Third Annual International Economic Forum of the El Paso Branch, Federal Reserve Bank of Dallas, "Immigration and the Economy," November 14, 1997.

gration between the United States and Mexico, "new employers and labor brokers, along with cross-border social networks of relatives and friends, link an expanding list of U.S. industries, occupations and areas to a lengthening list of Mexican communities that send migrants to the U.S."[12] (See the box titled "Immigration from Mexico.") Having a social tie to a migrant family member in the United States has also been found to increase the wages, hours of work and total monthly incomes of new immigrants, regardless of their country of origin: having kin contacts in the workplace aids immigrants in finding job connections, communicating with potential employers and establishing references.[13]

Once immigrants reach the United States, family and social networks are the primary determinants of where they will settle. Economic conditions, such as the unemployment rate in a particular region, play a smaller role in immigrants' locational decisions, while public policies, such as welfare benefits and average tax payments, have little or no impact on these decisions.[14]

Family and social networks are more powerful draws for immigration in part because of U.S. immigration legislation.

The Immigration and Nationality Act Amendments of 1965 replaced the national origin quota system, which favored European immigrants, with a preference system that made family reunification the first priority; skill-based applicants and refugees were placed lower on the priority list. This act also opened the door to immigration from Asia and Latin America. As a result, having a family member already in the United States has become the chief criterion upon which an immigrant's ability to enter this country rests.

The Changing Composition of Immigrants

A major result of the preference system created by the Immigration and Nationality Act Amendments of 1965 has been a change in the composition of immigrants to the United States. Between 1951 and 1960, 66 percent of legal immigrants to the United States were from Europe or Canada, while 32 percent came from Asia, Latin America and Mexico. Between 1981 and 1990, the share of immigrants from Europe and Canada dropped to 15 percent, while the share from Asia, Latin America and Mexico jumped to 83 percent (*Chart 3*).[15]

Concurrent with the changing composition of the immigrant population has been a change in the economic performance of immigrants relative to natives. U.S. immigrants on average earn less than native workers, and the deficit has been growing mainly because the gap in education and skills has been widening. According to the National Research Council, "This relative decline in immigrant skills and wages can be attributed essentially to a single factor—the fact that those who have come most recently have come from poorer countries, where the average education and wage and skill levels are far below those in the United States."[16] Indeed, when broken down by country of origin, immigrants from Europe and Canada generally earn significantly higher wages than U.S. natives, while immigrants from Latin America and Asia earn significantly lower wages.

The gap between the educational attainment of immigrants versus that of U.S. natives has widened substantially since 1970, as the average education level of U.S. natives has increased faster than that of immigrants. However, much of this gap can be explained by the influx of undocumented immigrants, who are generally more poorly educated. Indeed, while only 4 percent of total Mexican immigrants possess college degrees, 15 percent of legal Mexican immigrants are college graduates. Recent immigrants from Mexico, Guatemala and El Salvador—which supply more than 60 percent of undocumented immigrants to the United States—have a 71 percent high school dropout rate.[17] However, legal immigrants to the United States from the rest

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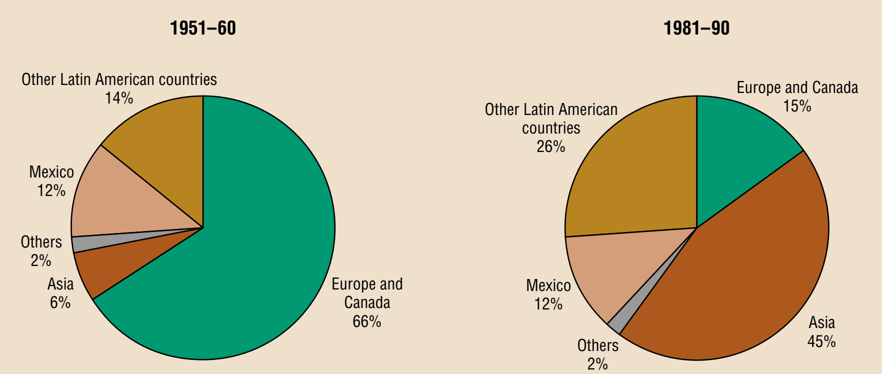
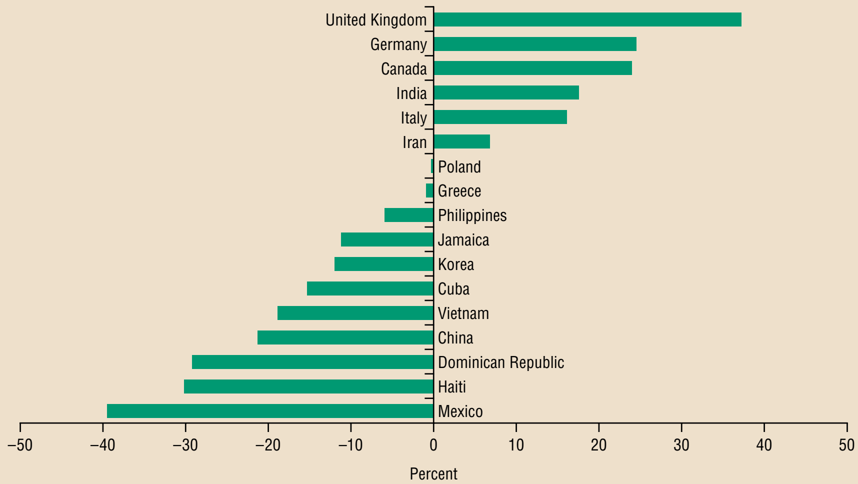
CHART 3
CHANGING COMPOSITION OF LEGAL IMMIGRANTS TO THE UNITED STATES



SOURCE: The Urban Institute.

CHART 4
WAGE DIFFERENTIAL BETWEEN IMMIGRANT MEN AND NATIVE MEN, 1990



NOTE: The statistics are calculated in the subsample of men aged 25–64 years who work in the civilian sector, are not self-employed and do not reside in group quarters. The educational attainment of native men in 1990 is 13.2 years.

SOURCE: 1990 Public Use Sample of the U.S. Census of Population.

of the world have only a 28 percent dropout rate—more in line with the 16 percent rate for U.S. natives. At the other end of the education spectrum, legal immigrants come out ahead: 36 percent of recent legal immigrants to the United States have college degrees versus only 24 percent of U.S. natives.

Ignoring the legal status of immigrants may also confound discussions of relative wage differentials. Chart 4 illustrates the wage differentials of immigrants, relative to U.S. natives, by country of origin. Because the data make no distinction as to the legal status of these immigrants, much of the emphasis on the bottom end of the chart may be due to the presence of undocumented and humanitarian admissions to the United States—groups that have different socioeconomic characteristics, are governed by different laws and regulations, and are eligible for different benefits and programs than are legal admissions.[18]

Conclusion

The U.S. immigration landscape continues to evolve, the result of both modifications in U.S. immigration policy and changing economies around the world. As more migrants arrive from Mexico and Latin America than from Europe and Canada, the perceptions and the realities of immigration's impacts will continue to change.

Much of the immigration debate in the United States has been fueled by the changing composition of immigrants and the increasing numbers of undocumented immigrants. In the end, however, the debate will hinge on the costs and benefits of international migration. While most studies of the costs and benefits of immigration to the United States conclude that immigration provides a net benefit, Part II of this article will show that the situation is much more complicated. Even when the economy as a whole gains from immigration, there may be losers as well as winners among different groups of U.S. natives and within different regions of the country.

—Beverly Fox Kellam
Lucinda Vargas

Notes

1 "Immigration and the Economy," the Third Annual International Economic Forum sponsored by the Federal Reserve Bank of Dallas, El Paso Branch, was held November 14, 1997.

2 Jeffrey S. Passel, The Urban Institute, Washington, D.C.; outline of remarks presented at the economic forum, "Immigration and the Economy."

3 James P. Smith and Barry Edmonston, eds., *The New Americans: Economic, Demographic and Fiscal Effects of Immigration* (Washington, D.C.: National Academy Press, 1997), p. S-2.

4 Passel, economic forum.

5 Passel, economic forum.

6 Finis R. Welch, Texas A&M University, College Station; remarks presented at the economic forum, "Immigration and the Economy."

7 J. Edward Taylor, University of California at Davis; outline of remarks presented at the economic forum, "Immigration and the Economy."

8 Passel, economic forum.

9 Taylor, economic forum.

10 Gordon H. Hanson and Antonio Spilimbergo, "Illegal Immigration, Border Enforcement and Relative Wages: Evidence from Apprehensions at the U.S.–Mexico Border," paper presented at the economic forum, "Immigration and the Economy."

11 Douglas S. Massey, Joaquin Arango, Graeme Hugo, Ali Kouaouci, Adela Pellegrino and J. Edward Taylor, "An Evaluation of International Migration Theory: The North American Case," *Population and Development Review*, December 1994, p. 729.

12 B. Lindsay Lowell, U.S. Commission on Immigration Reform; presentation on the Mexico–U.S. Binational Study on Migration at the economic forum, "Immigration and the Economy."

13 Massey, et al., p. 731.

14 Madeline Zavodny, "Determinants of New Immigrants' Locational Choices," paper presented at the economic forum, "Immigration and the Economy."

15 Passel, economic forum.

16 Smith and Edmonston, p. S-6.

17 Data exclude legal refugees.

18 Passel, economic forum. Immigrants in this study are grouped into three categories based on their legal status in the United States: legal immigrants, humanitarian admissions and undocumented immigrants. While humanitarian admissions are legal, they are placed in a separate category for purposes of demographic research.