

**Immigration and the Economy:  
Demand Matters**

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Although much of the public debate over immigration reform has focused on the rapid growth of the undocumented population over the past decade and a half, undocumented immigration is just one symptom of the larger disconnect between U.S. immigration policy and U.S. economic reality. Even as we struggle with the current financial crises and the threat of a more persistent economic slow-down, there is little doubt that immigration will continue to play an important role in our labor force at both ends of the educational spectrum. However, current immigration policies fail to offer sufficient legal avenues for immigrants to enter the country to fill either less-skilled or high-skilled jobs on either a temporary or permanent basis. As the issue of immigration has become more politicized, policy makers have become fixated on controlling the supply of undocumented workers and have paid very little attention to identifying and responding to those areas in our economy where there is a legitimate demand for foreign workers to compliment our current workforce. The refusal to detail, or in some cases even acknowledge the existence of a legitimate demand for foreign labor has created an unsustainable contradiction between U.S. economic policy and U.S. immigration policy. The presence of a large number of undocumented workers who have come outside the immigration system is evidence that economics is winning. The problem Congress must confront is a broken immigration system that sends the dual messages “Keep Out” and “Help Wanted” to the foreign workers who play an increasingly valuable role in our economy and society.

**Immigration is Essential to Growth of the U.S. Labor Force**

Although the heated political debate over undocumented immigration has focused attention on the role that immigrants play in filling jobs that require little formal education, immigrants are a vital part of the labor force at both ends of the educational spectrum. According to data from the Current Population Survey, about 15 percent of the labor force age 16 and older was foreign-born in 2005, amounting to 22 million workers. However, foreign-born workers accounted for a higher percentage of the labor force in specific occupations. For instance, the foreign-born accounted for roughly 39 percent of workers in farming, fishing, and forestry; 33 percent in building and grounds cleaning and maintenance; 26 percent in construction and extraction; and 21 percent in computer and mathematical occupations.<sup>1</sup> Moreover, the National Science Board estimates that in 2003 the foreign-born comprised 35.6 percent of all scientists and engineers in the United States with a doctorate and 29.0 percent of those with a master’s degree. The foreign-born share of advanced-degree holders was even greater in particular occupations. For instance, the foreign-born accounted for 57.4 percent of doctorate holders in computer science, 57.0 percent in electrical engineering, 54.2 percent in civil engineering, and 52.2 percent in mechanical engineering.<sup>2</sup>

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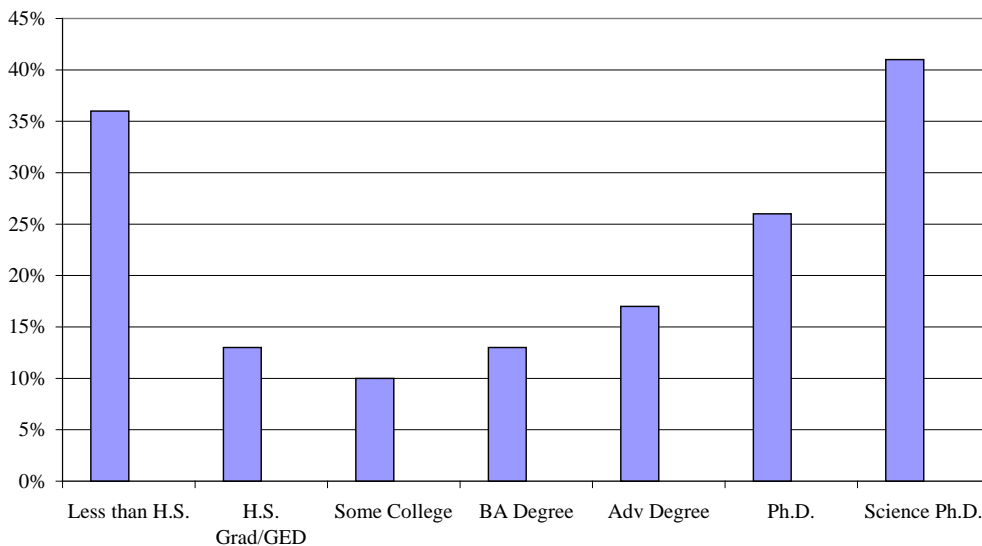
<sup>1</sup> Bureau of Labor Statistics, U.S. Department of Labor, News Release: “Foreign-Born Workers: Labor Force Characteristics in 2005,” April 14, 2006, Table 4: “Employed foreign-born and native-born persons 16 years and over by occupation and sex, 2005 annual averages.”

<sup>2</sup> National Science Board, *Science and Engineering Indicators 2006*. Arlington, VA: National Science Foundation, 2004, Tables 3-19 & 3-20.

The importance of immigration to the growth of the U.S. labor force stems in part from the fact that the native-born workforce is growing steadily older and will soon begin to shrink. According to the Bureau of Labor Statistics, the labor force age 55 and over will grow by an average of 4.1 percent per year from 2004 to 2014, compared to a growth rate of 0.3 percent per year among workers age 25 to 54.<sup>3</sup> At the same time, the number of jobs will likely increase by 6.0 million (21.2 percent) in professional and related occupations and 5.3 million (19.0 percent) in service occupations.<sup>4</sup>

These trends are particularly important for the future of the U.S. workforce when the educational differences between immigrants and natives are factored into the equation. Immigrants are heavily concentrated among workers with the lowest and highest levels of education (those without a high-school diploma or with a Ph.D.), while natives are found mostly among workers with intermediate levels of education. For instance, according to the 2005 American Community Survey, immigrants accounted for 36 percent of all workers age 15 and older with less than a high-school diploma and 26 percent of workers with a Ph.D. Among workers with a Ph.D. in the sciences, 41 percent were foreign-born {Figure 1}.<sup>5</sup> The fact that immigrants are concentrated at the extreme ends of the skill spectrum is evidence that they are arriving to fill gaps in the native-born workforce. The complementary nature of immigration allows us to create a more dynamic and flexible workforce, and our growing economy will continue to depend upon the diverse set of skills provided by both foreign and native-born workers. The challenge confronting policymakers is to ensure that these jobs offer decent wages and benefits to both the native-born and foreign-born workers who fill them.

**Figure 1:**  
**Foreign-Born Share of U.S. Workers by Education, 2005**



<sup>3</sup> Mitra Toossi, "Labor force projections to 2014: retiring boomers," *Monthly Labor Review* 128(11), November 2005: 25.

<sup>4</sup> Daniel E. Hecker, "Occupational employment projections to 2014," *Monthly Labor Review* 128(11), November 2005: 71.

<sup>5</sup> *Economic Report of the President*, Washington, DC: U.S. Government Printing Office, February 2007, Chart 9-2, p. 200.

## **Immigrant Purchasing Power and Entrepreneurship Create U.S. Jobs**

In assessing the impact of immigration on the economy it is important to remember that immigrants do more than fill gaps in the domestic workforce. Immigrants are also valuable consumers of the goods and services that many small businesses provide to the communities they serve. Perhaps even more important, many immigrants become small business owners themselves and help to create job opportunities and new innovations in our economy.

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Immigrant workers, like native-born workers, use their wages to purchase consumer goods and to rent or buy housing. By increasing demand, this spending stimulates the creation of new businesses and jobs. In addition, immigrants themselves create businesses and thereby increase employment.<sup>6</sup> Most of the available statistics on national consumer purchasing power and business formation are broken down by race and ethnicity rather than nativity. However, given that roughly 40 percent of the 41.9 million Latinos and 67 percent of the 12.5 million Asians in the United States were foreign-born as of 2005,<sup>7</sup> these statistics are a good indicator of the economic power of foreign-born consumers and entrepreneurs.

According to the Selig Center for Economic Growth at the University of Georgia, Latino buying power totaled \$798 billion in 2006 and is expected to increase to \$1.2 trillion by 2011.<sup>8</sup> Asian buying power totaled \$427 billion in 2006 and is expected to increase to \$622 billion by 2011.<sup>9</sup> Immigrant purchasing power is particularly important to the housing market. Harvard University's Joint Center for Housing Studies estimates that in 2001 there were more than 5.7 million foreign-born homeowners in the United States, representing \$1.2 trillion in home value and \$876 billion in home equity.<sup>10</sup> In addition, "household growth, the primary driver of housing demand, may well exceed 12 million between 2000 and 2010" and immigrants will "contribute more than one-quarter of this net increase."<sup>11</sup>

In terms of immigrant business formation, the U.S. Census Bureau estimates that, in 2002, 1.6 million Hispanic-owned firms provided jobs to 1.5 million employees, had receipts of \$222 billion, and generated payroll of \$36.7 billion.<sup>12</sup> The same year, 1.1 million Asian-owned firms provided jobs to 2.2 million employees, had receipts of \$326.4 billion, and generated payroll of \$56 billion.<sup>13</sup> Moreover, a 2005 report from the Ewing Marion Kauffman Foundation found that "immigrants have substantially

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<sup>6</sup> Immigration Policy Center, *Economic Growth and Immigration: Bridging the Demographic Divide*. Washington, DC: Immigration Policy Center, American Immigration Law Foundation, November 2005, p. 7-8.

<sup>7</sup> 2005 American Community Survey, Table B06004D: Place of Birth by Race (Asian Alone) in the United States and Table B06004I: Place of Birth by Race (Hispanic or Latino) in the United States.

<sup>8</sup> Jeffrey M. Humphreys, "The multicultural economy 2006," *Georgia Business and Economic Conditions* 66(3), Third Quarter 2006: 6.

<sup>9</sup> *ibid.*, p. 4.

<sup>10</sup> Rachel Bogardus Drew, *New Americans, New Homeowners: The Role and Relevance of Foreign-Born First-Time Homebuyers in the U.S. Housing Market*. Cambridge, MA: Joint Center for Housing Studies, Harvard University, August 2002, p. 2.

<sup>11</sup> Joint Center for Housing Studies, *The State of the Nation's Housing: 2003*. Cambridge, MA: Harvard University, 2003, p. 3.

<sup>12</sup> U.S. Census Bureau, *Hispanic-Owned Firms: 2002* (SB02-00CS-HISP), March 2006, Table 8: Statistics for Hispanic-Owned Firms by Kind of Business and Receipts Size of Firm: 2002.

<sup>13</sup> U.S. Census Bureau, *Asian-Owned Firms: 2002* (SB02-00CS-ASIAN), May 2006, Table 8: Statistics for Asian-Owned Firms by Kind of Business and Receipts Size of Firm: 2002.

higher rates of entrepreneurship than U.S.-born individuals.” During the 1996-2004 period, 0.46 percent of immigrants created a new business, compared to 0.35 percent of natives.<sup>14</sup>

### **Immigration Provides a Net Fiscal Benefit to the U.S. Economy**

Beyond the role of immigration in sustaining the U.S. labor force, immigrants also make a net fiscal contribution to the federal treasury. As the 2005 *Economic Report of the President* emphasizes, “a comprehensive accounting of the benefits and costs of immigration shows that the benefits of immigration exceed the costs.”<sup>15</sup> The President’s report bases this conclusion in large part on a 1997 study by the National Research Council (NRC) that is still the most authoritative analysis to date of the economic impact of immigration. The NRC study estimates that the average immigrant paid nearly \$1,800 more in taxes than he or she “costs” in public benefits such as education and healthcare.<sup>16</sup> Yet, as the NRC study notes, this figure fails to consider the contributions of an immigrant’s U.S.-born children and grandchildren. When both the public costs and tax contributions of an immigrant’s descendants are taken into account, the net fiscal contribution of the average immigrant was \$80,000.<sup>17</sup> The NRC study also estimates that the economic benefits of immigration ran as high as \$10 billion per year.<sup>18</sup>

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The tax contributions of immigrants are particularly important given that the native-born population is growing older. Because immigrants in general tend to be younger than natives and to have higher birth rates, their presence in the labor force plays an important role in the financing of Social Security and Medicare. Moreover, these contributions are not limited to legal immigrants. More than half of undocumented immigrants work “on the books,” so they pay into federal and state entitlement programs but are not eligible to receive any benefits.<sup>19</sup> Undocumented immigrants are believed to account for a major portion of the funds tracked in the Social Security Administration’s Earnings Suspense File (ESF), which represents social security taxes paid by workers who have invalid or mismatched social security numbers and who therefore cannot receive social security benefits.<sup>20</sup> In 2002, the ESF totaled \$463 billion.<sup>21</sup>

### **Immigration Raises Wages for Most Native-Born Workers**

Because immigration increases the labor supply, the view that immigrants have a negative impact on the wages of native-born workers, particularly those in less-skilled occupations, has gained prominence over the past decade. This perspective has been shaped in large part by the work of Harvard economist George Borjas, who argued in an influential article in 2003 that the real wages of native-born workers

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<sup>14</sup> Robert W. Fairlie, *Kauffman Index of Entrepreneurial Activity*. Kansas City, MO: Ewing Marion Kauffman Foundation, 2005, p. 1.

<sup>15</sup> *Economic Report of the President*, Washington, DC: U.S. Government Printing Office, February 2005, p. 93.

<sup>16</sup> James P. Smith & Barry Edmonston, eds., *The New Americans: Economic, Demographic, and Fiscal Effects of Immigration*. Washington, DC: National Research Council, National Academy of Sciences Press, 1997, p. 349.

<sup>17</sup> *ibid.*, p. 351.

<sup>18</sup> *ibid.*, p. 220.

<sup>19</sup> *Economic Report of the President*, 2005, p. 107-108.

<sup>20</sup> Office of the Inspector General, Social Security Administration, *Obstacles to Reducing Social Security Number Misuse in the Agriculture Industry* (Report No. A-08-99-41004), January 22, 2001, p. 12.

<sup>21</sup> *Economic Report of the President*, 2005, p. 107-108.

fell during the 1980-2000 period as a result of immigration.<sup>22</sup> However, other economists have critiqued Borjas' methodology and reached different conclusions. For instance, according to Giovanni Peri and Gianmarco I.P. Ottaviano, Borjas' conclusions are based on two faulty assumptions: "(1) that foreign-born and native-born workers with the same level of education and labor-market experience are interchangeable with each other; and (2) that immigration represents an increase in the labor supply for a given amount of physical capital (machinery, buildings, etc.) that does not change over time."<sup>23</sup> In reality, foreign-born workers have skills, occupations, and abilities that complement those of native workers, thereby increasing the productivity of natives and stimulating investment. When these factors are taken into account, Peri and Ottaviano find that immigration increases the average wages of native-born workers, except for the shrinking number who do not have a high-school diploma. During the 1990-2004 period, immigration raised the average yearly wages of native-born workers by 1.8 percent. Among native-born workers with a high-school diploma or more education, wages increased between 0.7 percent and 3.4 percent, depending on education level. Among native-born workers without a high-school diploma (who comprised only 11.7 percent of the native-born population age 25 and older in 2005<sup>24</sup>), wages declined by 1.1 percent.<sup>25</sup>

### **We Need More Than Just a "Temporary" Fix**

Despite the importance of immigration to the U.S. economy, and the inadequacy of virtually all channels for legal immigration to the United States, most policymakers have come to equate "immigration reform" only with controlling undocumented immigration. Even within the confines of this limited discussion, the debate is focused on whether the most effective response to undocumented immigration is enhanced immigration enforcement alone, or enhanced enforcement in conjunction with a new "guest worker" program that is more responsive than current immigration policies to the labor needs of the U.S. economy. All but lost in the debate over border fences and guest workers is the need to revamp pathways for permanent immigration as well. Yet overhauling channels for permanent immigration is essential not only to controlling undocumented immigration, but also to crafting immigration policies that best serve the long-term economic and social interests of the United States. Immigration reform will not be truly comprehensive, or effective, unless it recognizes the vital contributions of temporary workers and permanent immigrants alike, and the inadequacy of the current immigration system in providing legal channels for either to enter the country.<sup>26</sup>

Of course, it is understandable that the immigration debate has focused so heavily on undocumented immigration. The large population of undocumented immigrants in the United States is by far the most visible symptom of the current immigration system's endemic dysfunction. Recognizing that undocumented immigration on this scale is socially and politically unsustainable, but that the U.S.

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<sup>22</sup> George J. Borjas, "The Labor Demand Curve is Downward Sloping: Reexamining the Impact of Immigration on the Labor Market," *Quarterly Journal of Economics* 118(4), November 2003.

<sup>23</sup> Giovanni Peri, *Rethinking the Effects of Immigration on Wages: New Data and Analysis from 1990-2004*. Washington, DC: Immigration Policy Center, American Immigration Law Foundation, October 2006, p. 2. Based on Gianmarco I.P. Ottaviano & Giovanni Peri, *Rethinking the Effects of Immigration on Wages* (Working Paper No. 12497). Cambridge, MA: National Bureau of Economic Research, August 2006.

<sup>24</sup> Current Population Survey, Educational Attainment in the United States: 2005, Detailed Tables, Table 10: Educational Attainment of the Population 25 Years and Over, by Citizenship, Nativity and Period of Entry, Age, Sex, Race, and Hispanic Origin: 2005.

<sup>25</sup> Giovanni Peri, *Rethinking the Effects of Immigration on Wages*, 2006, p. 6-7.

<sup>26</sup> Walter A. Ewing, *More Than a Temporary Fix: The Role of Permanent Immigration in Comprehensive Reform*. Washington, DC: Immigration Policy Center, American Immigration Law Foundation, January 2006, p. 2.

economy demands more immigrant workers than current legal limits allow, a growing number of lawmakers accept the need for some sort of immigration reform. Advocates of reform generally agree that existing legal channels through which temporary workers enter the United States are hobbled by arbitrary restrictions that are unresponsive to actual labor demand. This is true especially for workers in less-skilled jobs, who make up the bulk of the undocumented population.

Employers and immigrants alike, therefore, could benefit from a new temporary-worker program, provided that it included strong wage and labor protections to prevent abuses such as those which occurred under the *bracero* program of 1942-1964. A legal flow of temporary workers undoubtedly would meet at least some of the labor needs of U.S. employers, particularly in industries which produce jobs that are seasonal in nature or require relatively few formal skills, such as agriculture or hotels and restaurants in resort towns.

However, an inflexible “temporary only” approach to immigration reform suffers from serious shortcomings. Only a small portion of the U.S. economy’s labor needs are truly temporary. The vast majority of jobs being created in our economy are year-round, permanent jobs that cannot be met by the transient workforce that a temporary program would supply. A temporary program that does not allow particularly valuable or productive workers who are filling permanent jobs to apply for a permanent status would represent a needless waste of talent. Forcing employers to spend even more time and resources on retaining their current workforce distracts them from the far more valuable and productive work of trying to expand their businesses and create more job opportunities.

Perhaps most importantly, the labor of temporary workers from abroad cannot substitute for the economic vitality and social stability that the United States historically has derived from permanent immigration. Both temporary workers and permanent immigrants fill critical gaps in the U.S. labor force, but permanent immigrants are far more likely to acquire new job skills, achieve upward mobility, learn English, buy homes, create businesses, revitalize urban areas, and integrate into their communities.

### **Moving Beyond Undocumented Immigration and Temporary Workers**

Unfortunately, while most policymakers who favor immigration reform recognize the need for a new temporary worker program, relatively little attention is being paid to the fact that avenues for permanent immigration must be expanded as well if reform is to be effective. The persistence of undocumented immigration reflects limitations in the existing avenues by which both permanent immigrants and temporary workers can legally enter the country, and serious flaws in family-based as well as employment-based immigration channels. In the case of temporary employment-based immigration, the number of H-1B visas for highly skilled professionals is arbitrarily capped at 65,000 per year and the number of H-2B visas for less-skilled non-agricultural workers at 66,000 per year. The H-2A visa program for agricultural workers contains no numerical caps, but does not respond quickly to the often rapid fluctuations in agricultural labor demand and is thus seldom used by employers. The available options for employment-based permanent immigration are not any better. Only about 140,000 employment-based green cards are available each year for workers of all skill levels. Of these, a mere 5,000 are allotted for less-skilled workers.<sup>27</sup>

Given that most immigrants come to the United States through family-based rather than employment-based channels, it might seem that the family-based immigration system could compensate for the

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<sup>27</sup> The cap is set at 10,000, but 5,000 visas are reserved each year for beneficiaries of the Nicaraguan Adjustment and Central American Relief Act of 1997 (NACARA).

deficiencies in the employment-based system. However, the family-based immigration system is crippled by arbitrary numerical caps and complex rules that impose enormous delays on family reunification. U.S. citizens may obtain “visa numbers” immediately when petitioning for their spouses and children under the age of 21 to immigrate to the United States. But the allotment of visa numbers for all other relatives of U.S. citizens, and for all the relatives of lawful permanent residents (LPRs), is governed by a “family preference” system characterized by waiting times of many years. In the case of Mexican nationals, wait times as of October 2008 were about 7 years for the spouse of an LPR and 15 years for the unmarried adult child of a U.S. citizen.<sup>28</sup> Delays of this magnitude not only undermine the family-reunification goal of the family-based immigration system, but also render that system ineffective in responding to U.S. labor demand. The rise of undocumented migration is a predictable result.

### **The Contours of a Comprehensive Approach**

Although immigration reform is by its very nature complex and controversial, the broad contours of an effective reform program already have been suggested by the 20 years of experience garnered since the last time Congress undertook this task. In the 1980s, lawmakers confronted an immigration quandary very similar to that which we confront today: a growing number of undocumented immigrants crossing the border, settling in the United States, and joining the workforce. Lawmakers of the time eventually agreed upon a remedy, the Immigration Reform and Control Act of 1986 (IRCA), that combined heightened worksite and border enforcement with legalization of most undocumented immigrants then in the country.

As a 2006 study by the Immigration Policy Center at the American Immigration Law Foundation points out, IRCA failed to offer a long-term solution to the problem of undocumented immigration for 3 principal reasons: (1) it did not expand avenues for legal immigration to match the U.S. economy’s continuing demand for workers; (2) it did not create an effective system through which employers could verify that their employees are authorized to work in the United States; and (3) the employer sanctions provisions of the bill have been weakly enforced. As a result, undocumented immigration not only continued after the passage of IRCA, but increased. Lawmakers should take care not to make the same mistakes in crafting new immigration-reform legislation. Comprehensive reform must address the status of undocumented immigrants already here, expand legal channels of immigration to accommodate future migratory flows, create a mechanism by which employers can readily ensure that they are not hiring undocumented workers, and crack down on employers who knowingly hire undocumented immigrants.<sup>29</sup>

### **Conclusion**

No amount of immigration enforcement can compensate for the fact that U.S. immigration policies are outdated. Over the past two decades, the economic integration of North America, the western hemisphere, and the world have increased dramatically. While the current economic problems plaguing the United States have slowed economic growth, there is little doubt that when it recovers the U.S. economy will go back to creating large numbers of both highly skilled and less-skilled jobs even as native-born workers grow older and are increasingly unavailable to fill such jobs. Yet the federal government persists in trying to impose numerical caps and other restrictions on immigration that were

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<sup>28</sup> U.S. Department of State, “Visa Bulletin for October 2008” (No. 1, Vol. IX).

<sup>29</sup> Jimmy Gomez & Walter A. Ewing, *Learning from IRCA: Lessons for Comprehensive Immigration Reform*. Washington, DC: Immigration Policy Center, American Immigration Law Foundation, May 2006, p. 2.

formulated in the 1960s. As a result, immigration-enforcement resources are devoted in large part to stemming labor migration which the U.S. economy attracts and which is an outcome of globalization.

Lawmakers must tackle the issue of immigration reform with less rhetoric and more realism. Continuing the status quo by trying to enforce immigration policies that are at war with the U.S. and global economies will do nothing to address the underlying problem. Nor is it feasible to wall off the United States from the rest of the world. The most practical option is to bring U.S. immigration policy in line with the realities of the U.S. labor market and an increasingly transnational economy. Lawmakers must craft immigration policies that are as responsive to market forces as their economic policies, while implementing and enforcing tough labor laws to guarantee fair wages and good working conditions for all workers, be they natives or immigrants.

A truly comprehensive approach to immigration reform must include the creation of a process by which undocumented immigrants already living and working in the United States can apply for legal status; the creation of a new temporary-worker program that includes a pathway to permanent residence, stringent labor protections, and the right to change employers; and an overhaul of the avenues by which permanent immigrants enter the United States through both employment-based and family-based channels. By taking these steps, the U.S. government would be able to more effectively control, regulate, and monitor immigration, rather than consigning a large portion of it to a shadowy and insecure black market.