

## THE ECONOMICS OF NECESSITY: *Economic Report of the President* Underscores the Importance of Immigration

by Walter A. Ewing, Ph.D.\*

### EXECUTIVE SUMMARY

Although immigration is crucial to the growth of the U.S. labor force and yields a net fiscal benefit to the U.S. economy, current immigration policies fail to respond to actual labor demand.

Among the findings of this report:

- Nearly a quarter of the U.S. population is either foreign-born or the child of someone who is foreign-born.
- In 2004, 14.9% of the labor force was foreign-born, amounting to 21.8 million workers. Between 1996 and 2003, the foreign-born accounted for 58% of the 11 million new workers in the United States.
- In 2003 foreign-born workers comprised 41% of the labor force in “farming, fishing, and forestry”; 33% in “building and grounds cleaning and maintenance”; 22% in “food preparation and serving”; 22% in “construction and extraction”; 19% in “computer and mathematical occupations”; and 17% in “life, physical, and social sciences.”
- In the 1996-2002 period, the immigrant share of employment growth amounted to 86% of the 1 million new positions in “precision production, craft, and repair” (which includes mechanics and construction workers) and 62% of the 2 million new positions in service occupations (such as janitors, kitchen workers, and grounds workers).
- The fertility rate in the United States is projected to fall below “replacement” level by 2015-2020, declining to 1.91 children per woman.
- During the 2002-2012 period, the number of workers age 55 and over will likely increase 49.3%, compared to only 5.1% among those 25-54 and 9% among those 16-24.
- During the 2002-2012 period, the number of jobs will likely increase by 23.3% in “professional and related occupations” and 20.1% in “service occupations.”
- An increase of 10% in the foreign-born share of the workforce lowers wages for natives less than 1%.
- Over the next 50 years, legal immigrants will add \$407 billion to the Social Security system.
- As of January 2005 there were 271,000 applications for employment-based green cards pending (including a backlog of 191,000 at the Department of Homeland Security) and the Department of Labor had a backlog of 300,000 applications for labor certification.

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## INTRODUCTION

Although little noticed by the press, the 2005 *Economic Report of the President* – which was submitted to Congress on February 17, 2005 – prominently highlights the critical importance of immigration to the U.S. economy. The fact that the report devotes an entire chapter to the topic of immigration underscores both the extent to which immigration has become a driving force in the economy and the degree to which immigration policy affects the nation’s economic prospects. The data compiled in the report, as well as a wide array of data from other sources, illustrate that immigration has become the key to growth of the U.S. labor force and that immigrants provide a net fiscal benefit to the U.S. economy. However, current immigration policies fail to account for either of these facts and set limits on immigration that fall well below actual labor demand. The President’s report recognizes that the outdated U.S. immigration system is in need of reform and proposes a new temporary worker program. But truly comprehensive immigration reform will also entail creating a pathway to legal status for most of the undocumented immigrants already in the United States and expanding the avenues for permanent immigration, as well as crafting tougher wage and labor laws for all workers.

## AN IMMIGRANT NATION

The President’s report observes that “immigration has touched every facet of the U.S. economy and...America is a stronger and better Nation for it.”<sup>1</sup> The degree to which immigration is embedded in the social fabric of the United States is evident in the fact that nearly a quarter of the population is either foreign-born or the child of someone who is foreign-born. According to statistics released in February 2005 by the U.S. Census Bureau, there were 34.2 million foreign-

born persons in the United States in 2004, comprising 12 percent of the total population.<sup>2</sup> A March 2005 study by the Pew Hispanic Center, which seeks to compensate for the likely undercount of immigrants by the Census Bureau, places the total number of foreign-born persons in the United States at 35.7 million in 2004.<sup>3</sup> The Census Bureau estimates that the majority (53 percent) of the foreign-born in that year were from Latin America, while 25 percent were from Asia, 14 percent from Europe, and 8 percent from Africa, Oceania, and other parts of the world.<sup>4</sup> In addition, 30.4 million Americans, or 11 percent of the population, were “second generation,” with one or both parents born in another country.<sup>5</sup> Although these numbers are unprecedented in absolute terms, the number of foreign-born as a percentage of the total population remains below the historical highs of 1860-1920, when the foreign-born accounted for more than 13 percent of the population.<sup>6</sup>

## THE KEY TO LABOR FORCE GROWTH

As the President’s report points out, immigrants “work in diverse occupations ranging from construction workers and cooks to computer programmers and medical doctors.”<sup>7</sup> The Center for Labor Market Studies at Northeastern University estimates that 14.9 percent of the labor force was foreign-born in the first four months of 2004, amounting to 21.8 million workers.<sup>8</sup> However, foreign-born workers account for a higher percentage of the labor force in specific occupations at both ends of the educational spectrum. According to data from the Bureau of Labor Statistics, in 2003 foreign-born workers comprised roughly 41 percent of the labor force in “farming, fishing, and forestry occupations”; 33 percent in “building and grounds cleaning and maintenance occupations”; 22 percent in “food preparation and serving related occupations”; 22 percent in “construction and extraction occupations” (which

<sup>1</sup> *Economic Report of the President*, Washington, DC: U.S. Government Printing Office, February 2005, p. 93.

<sup>2</sup> U.S. Census Bureau, News Release: “Foreign-Born Population Tops 34 Million, Census Bureau Estimates,” February 22, 2005 – Table 1.1 Population by Sex, Age, and U.S. Citizenship Status: 2004.

<sup>3</sup> Jeffrey S. Passel, *Estimates of the Size and Characteristics of the Undocumented Population*. Washington, DC: Pew Hispanic Center, March 21, 2005.

<sup>4</sup> “Foreign-Born Population Tops 34 Million, Census Bureau Estimates” – Table 3.1 Foreign-Born Population by Sex, Age, and World Region of Birth: 2004.

<sup>5</sup> “Foreign-Born Population Tops 34 Million, Census Bureau Estimates – Table 5.1 Population by Sex, Age, and Generation: 2004.

<sup>6</sup> Campbell J. Gibson & Emily Lennon, *Historical Census Statistics on the Foreign-born Population of the United States: 1850-1990* (Population Division Working Paper No. 29). Washington, DC: U.S. Census Bureau, February 1999.

<sup>7</sup> *Economic Report of the President*, p. 93.

<sup>8</sup> Andrew Sum, et al., *Foreign Immigration and the Labor Force of the U.S.: The Contributions of New Foreign Immigration to the Growth of the Nation’s Labor Force and Its Employed Population, 2000 to 2004*. Boston, MA: Center for Labor Market Studies, Northeastern University, July 2004.

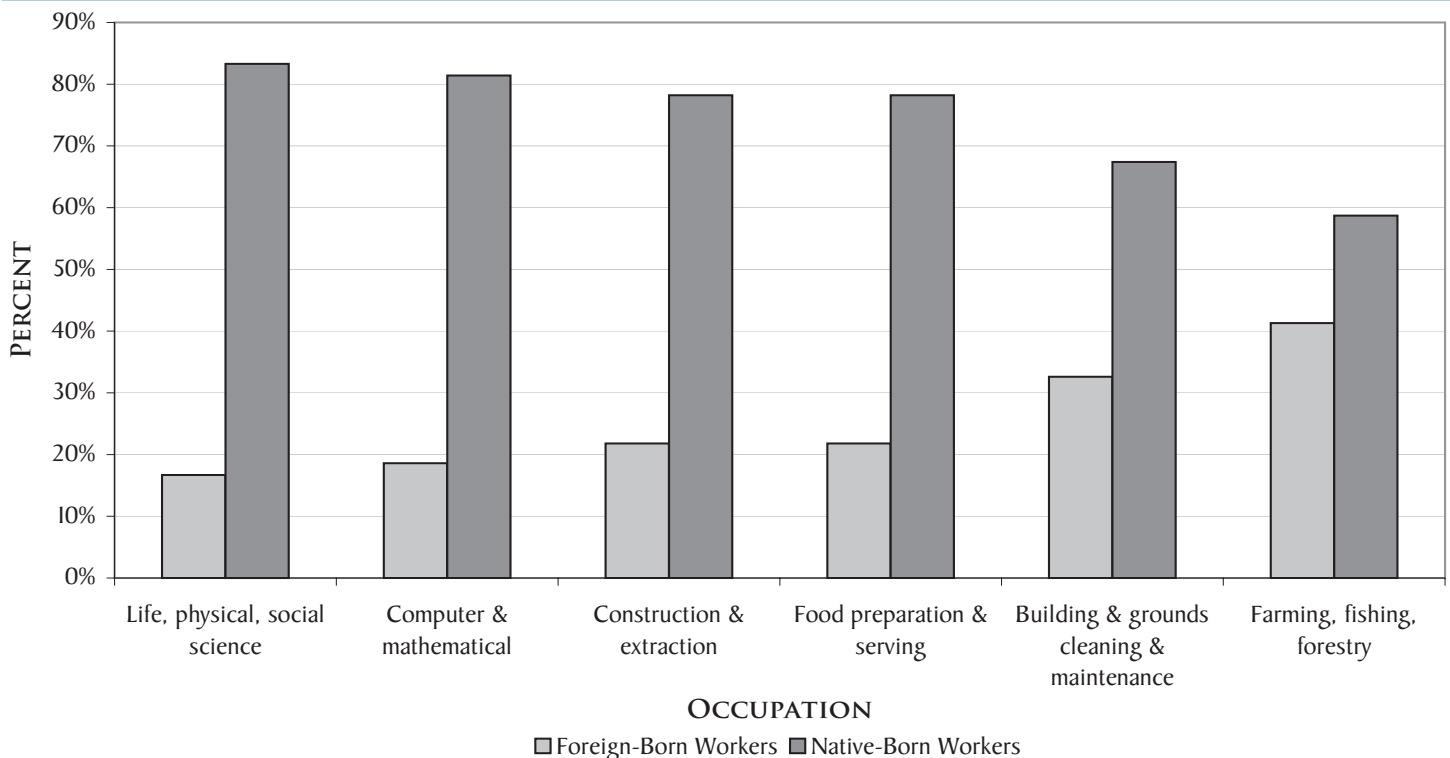
includes mining); 19 percent in “computer and mathematical occupations”; and 17 percent in “life, physical, and social science occupations.”<sup>9</sup> The National Science Board estimates that in 2000 the foreign-born comprised 38 percent of all scientists and engineers in the United States with a doctorate and 29 percent of those with a master’s degree.<sup>10</sup>

Immigration has had an even more pronounced impact on the growth of the U.S. labor force in recent years. The President’s report points out that “between 1996 and 2003, when total employment grew by 11 million, 58 percent of the net increase was among foreign-born workers,” almost all of whom had arrived since 1995. The immigrant share of employment growth was even higher in particular occupations, amounting in the 1996-2002 period to 86 percent of the 1 million new positions in “precision production, craft, and repair” (which includes mechanics and construction workers) and 62 percent of the 2 million new positions in service occupations (such as

janitors, kitchen workers, and grounds workers). Moreover, this pattern holds true beyond the traditional immigrant-receiving states of California, New York, Texas, and Florida. The President’s report notes that between 1996 and 2003 immigrants accounted for 84 percent of labor-force growth in eastern North Central states (Indiana, Illinois, Michigan, Ohio, and Wisconsin) and 47 percent in eastern South Central states (Alabama, Kentucky, Mississippi, and Tennessee).<sup>11</sup>

The importance of immigration to growth of the U.S. labor force is due in part to the fact that the native-born workforce is growing steadily older, and will soon begin to shrink, while the U.S. economy continues to generate high demand for workers at both ends of the occupational spectrum. According to estimates released in February 2005 by the United Nations, the fertility rate in the United States is projected to fall below “replacement” level by 2015-2020, declining to 1.91 children per woman (lower than the 2 children per woman required for

PERCENT FOREIGN-BORN & NATIVE-BORN WORKERS IN SELECT OCCUPATIONS, 2003



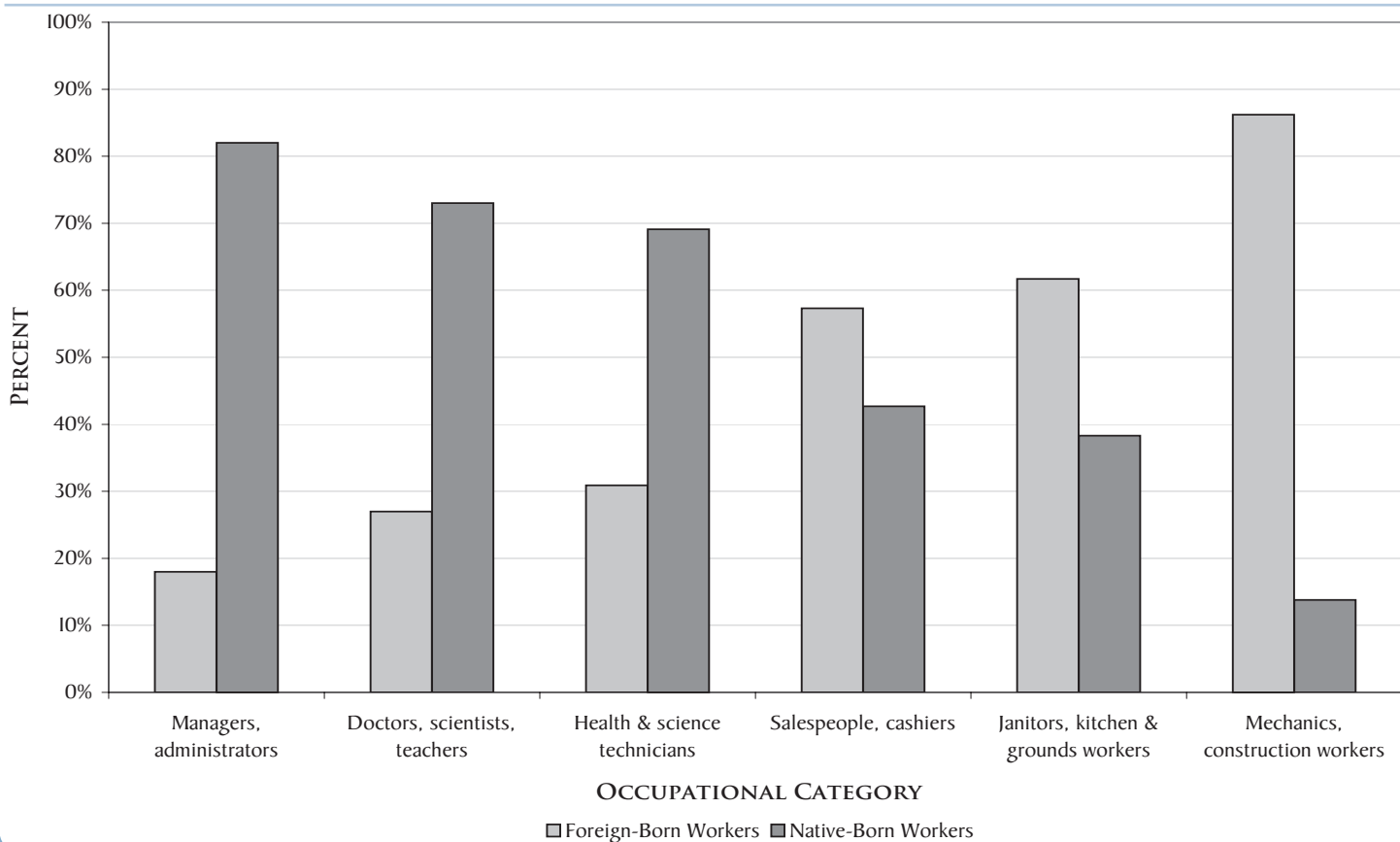
Source: Bureau of Labor Statistics, U.S. Department of Labor, News Release: “Labor Force Characteristics of Foreign-Born Workers in 2003,” December 1, 2004 – Table 4.

<sup>9</sup> Bureau of Labor Statistics, U.S. Department of Labor, News Release: “Labor Force Characteristics of Foreign-Born Workers in 2003,” December 1, 2004 – Table 4. Employed foreign-born and native-born persons 16 years and over by occupation and sex, 2003 annual averages.

<sup>10</sup> National Science Board, *Science and Engineering Indicators 2004*. Arlington, VA: National Science Foundation, 2004.

<sup>11</sup> *Economic Report of the President*, p. 94-95.

FOREIGN-BORN & NATIVE-BORN SHARES OF EMPLOYMENT GROWTH BY OCCUPATIONAL CATEGORY, 1996-2002



Source: *Economic Report of the President*, Washington, DC: U.S. Government Printing Office, February 2005, p. 95.

parents to “replace” themselves in the population).<sup>12</sup> Meanwhile, the Bureau of Labor Statistics predicts that, even with continued legal immigration of 900,000-1.3 million per year during the 2002-2012 period,<sup>13</sup> the number of workers age 55 and over will likely increase 49.3 percent (10.2 million), compared to projected increases of only 5.1 percent (5.1 million) among those 25-54 and 9 percent (2 million) among those 16-24.<sup>14</sup> At the same time, the number of jobs will likely increase by 23.3 percent (6.5 million) in “professional and related occupations” and 20.1 percent (5.3 million) in “service occupations.”<sup>15</sup>

These trends have important implications for the less-skilled workforce in particular when the educational differences

between immigrants and natives are factored into the equation. Although roughly equal proportions of immigrants and natives have at least a bachelor’s degree, immigrants are far more likely than natives to have less than or no more than a high school education. The Census Bureau estimates that, in 2003, 27.3 percent of the foreign-born and 27.2 percent of natives age 25 and over had a bachelor’s degree or more. However, 21.5 percent of the foreign-born had less than a 9<sup>th</sup> grade education (compared to 4.1 percent of natives) and 67.2 percent had completed high school (compared to 87.5 percent of natives).<sup>16</sup> Commenting on the economic consequences of these educational disparities, the President’s report observes that “as education levels rise among younger U.S. workers and older

<sup>12</sup> Population Division, Department of Economic and Social Affairs, United Nations, *World Population Prospects: The 2004 Revision, Highlights*, February 24, 2005, p. 71.

<sup>13</sup> Michael W. Horrigan, “Employment projections to 2012: concepts and context,” *Monthly Labor Review* 127(2): 12, February 2004.

<sup>14</sup> Mitra Toossi, “Labor force projections to 2012: the graying of the U.S. workforce,” *Monthly Labor Review* 127(2): 48, February 2004.

<sup>15</sup> Daniel E. Hecker, “Occupational employment projections to 2012,” *Monthly Labor Review* 127(2): 81, February 2004.

<sup>16</sup> Luke J. Larsen, *The Foreign-Born Population in the United States: 2003*, Current Population Reports, P20-551. Washington, DC: U.S. Census Bureau, August 2004.

U.S. workers retire, the number of low-skilled natives is declining.”<sup>17</sup> In other words, there are relatively few native-born workers willing and able to fill the growing number of low-skill, low-wage jobs in the service sector of the economy.

Despite the prominence of foreign-born workers in some sectors of the economy, their presence appears to have a small impact on the wages of native-born workers. The President’s report notes that this is due in large part to the fact that immigrants are not necessarily “substitutable” for native workers. The report observes that “an immigrant with unique skills, such as a highly specialized scientist, or an immigrant who speaks little or no English, is unlikely to compete directly with most U.S. workers.” As a result, the report states, an increase of 10 percent in the foreign-born share of the workforce lowers wages for natives less than one percent. Nevertheless, the report notes that the presence of less-skilled immigrant workers in the labor market may lower the wages of other less-skilled workers with whom they compete by a slightly higher margin. The greatest impact is on previously arrived immigrants, whose wages may be reduced by 2-4 percent.<sup>18</sup> It is important to keep in mind, however, that weak or poorly enforced wage and labor laws may play a role in the wage declines experienced by both native and previously arrived immigrant workers when confronted with an influx of new immigrants into the job market.

## FISCAL BENEFITS 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 U.S. economy. As the President’s report emphasizes, “a comprehensive accounting of the benefits and costs of immigration shows that the benefits of immigration exceed the costs.”<sup>19</sup> The report bases this conclusion in 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 pays nearly \$1,800 more in taxes than he or she “costs” in public benefits such as education and healthcare.<sup>20</sup> Yet, as the NRC study notes, this figure fails to consider the contributions of an immigrant’s U.S.-born children. When both the public costs and tax contributions of an immigrant’s children are taken into account, the net fiscal contribution of the average immigrant is \$80,000.<sup>21</sup> The NRC study also estimates that the economic benefits of immigration run as high as \$10 billion per year.<sup>22</sup>

The tax contributions of immigrants are particularly important given that the native-born population is growing older. The President’s report points out that, because immigrants in general tend to be younger than natives and to have higher birth rates, their presence in the labor force serves to “slow the ongoing decline in the ratio of workers per retirees. This, in turn, contributes to the financing of pay-as-you-go entitlement programs, such as Social Security and Medicare.”<sup>23</sup> This is illustrated in a February 2005 study by the National Foundation for American Policy which calculates that “over the next 50 years, new legal immigrants entering the United States will provide a net benefit of \$407 billion in present value to America’s Social Security system.”<sup>24</sup>

However, these contributions are not limited to legal immigrants. The President’s report notes that “more than half of undocumented immigrants are believed to be working ‘on the books,’ so they contribute to the tax rolls but are ineligible for almost all Federal public assistance programs and most major Federal-state programs.” 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 can not receive social security benefits. According to the President’s report, the ESF totaled \$463 billion in 2002.<sup>25</sup>

<sup>17</sup> *Economic Report of the President*, p. 94.

<sup>18</sup> *Economic Report of the President*, p. 105.

<sup>19</sup> *Economic Report of the President*, p. 93.

<sup>20</sup> James P. Smith & Barry Edmonston, Editors, *The New Americans: Economic, Demographic, and Fiscal Effects of Immigration*. Washington, DC: National Research Council, National Academy of Sciences Press, 1997, p. 349.

<sup>21</sup> *The New Americans*, p. 351.

<sup>22</sup> *The New Americans*, p. 220.

<sup>23</sup> *Economic Report of the President*, p. 108.

<sup>24</sup> Stuart Anderson, *The Contribution of Legal Immigration to the Social Security System*. Arlington, VA: National Foundation for American Policy, February 2005 (revised March 2005).

<sup>25</sup> *Economic Report of the President*, p. 107-108.

The President's report observes that, despite the net fiscal contributions of immigrants, "the distribution of the gains from immigration can be uneven."<sup>26</sup> For instance, states that experience a large influx of immigrants may suffer from over-burdened public education and healthcare systems, the expansion of which is then financed through higher taxes.<sup>27</sup> However, this has much to do with the tax system and the allocation of tax revenue. The 1997 NRC study notes that the federal government tends to deliver pension and healthcare benefits to people *after* they have already paid taxes through decades of work. But state and local governments tend to deliver benefits – such as education – to people *before* they become tax-paying adults. As a result, the fiscal benefits of immigration tend to accrue at the federal level.<sup>28</sup>

## OUTDATED IMMIGRATION POLICIES

The current immigration system has yet to acknowledge the enormous and growing importance of immigrants to the U.S. economy. This is most clearly illustrated by the burgeoning undocumented population. The Pew Hispanic Center estimates that in 2004 there were 10.3 million undocumented immigrants in the United States: 5.9 million (57 percent) from Mexico, 2.5 million (24 percent) from other Latin American countries, 1 million (9 percent) from Asia, 600,000 (6 percent) from Europe and Canada, and 400,000 (4 percent) from Africa and elsewhere. About 86 percent of undocumented immigrants had arrived since 1990 (with 30 percent having arrived since 2000). Over the past decade, the undocumented population has grown at a rate of 700,000-750,000 per year.<sup>29</sup>

According to the President's report, "one of the most pervasive features of undocumented immigration is that it is overwhelmingly driven by supply and demand: immigrants want to work in the United States, and many American employers want to hire them." However, current legal limits on both temporary and permanent immigration remain

largely unresponsive to changes in labor demand as a result of arbitrary numerical limits, lengthy delays in the processing of visa and immigration applications, and time-consuming bureaucratic requirements. With regard to temporary immigration, the President's report notes that congressionally mandated caps set the number of H-1B visas for highly skilled professionals 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. As a result, only 14,000 H-2A workers entered the country in 2003.<sup>30</sup>

The available options for employment-based permanent immigration are not any better. According to the President's report, under numerical limits on immigration established by Congress, only about 140,000 employment-based green cards are available each year, of which a mere 5,000 are allotted for less-skilled workers.<sup>31</sup> In addition, as of January 2005 there were 271,000 applications for employment-based green cards pending (including a backlog of 191,000 at the Department of Homeland Security) and the Department of Labor had a backlog of 300,000 applications for labor certification (by which an employer attests that a U.S. worker cannot be found for a position and that the hiring of a foreign worker will not undermine the wages or working conditions of current employees).<sup>32</sup>

## COMPREHENSIVE IMMIGRATION REFORM

The failure of current U.S. immigration policies to meet the demands of the U.S. economy points to the need for comprehensive immigration reform. As the President's report states, "the lessons learned from recent decades can guide immigration reform and make laws more consistent with economic realities and American values."<sup>33</sup> However, the proposal described in the

<sup>26</sup> *Economic Report of the President*, p. 93.

<sup>27</sup> *Economic Report of the President*, p. 106-107.

<sup>28</sup> *The New Americans*, p. 347-48.

<sup>29</sup> *Estimates of the Size and Characteristics of the Undocumented Population*.

<sup>30</sup> *Economic Report of the President*, p. 110-14.

<sup>31</sup> A total of 10,000 employment-based green cards are allotted for less-skilled workers, but half of these are reserved for beneficiaries of the 1997 Nicaraguan Adjustment and Central American Relief Act.

<sup>32</sup> *Economic Report of the President*, p. 110-14.

<sup>33</sup> *Economic Report of the President*, p. 116.

report – a temporary worker program in which workers receive three-year visas that can be renewed once – represents only a partial solution. Many prospective immigrants will no doubt welcome the opportunity to participate in such a program, but not all industries in the United States can rely on a transient workforce that changes every 3-6 years. Moreover, a temporary program does not address the circumstances of undocumented immigrants already living in the country, 3.5 million of whom have been here a decade or more. Nor does a temporary program address the plight of the more than 3 million U.S.-citizen children who have undocumented parents.<sup>34</sup>

Given the degree to which the U.S. economy depends on immigrants as workers and taxpayers – as well as consumers and business owners – effective immigration reform must be broad in scope. The ultimate goal is to ensure that

immigrants enter the United States in sufficient numbers to accommodate labor demand, under conditions that will not disadvantage the immigrants themselves or the other workers – both native and foreign-born – with whom they compete. Achieving this goal will involve expanding the options available for both temporary and permanent immigration, allowing currently undocumented immigrants to apply for legal status, and strengthening wage and labor laws that protect all workers regardless of where they were born. Without this sort of comprehensive reform, the U.S. immigration system will continue to be defined by what President Bush described in his 2005 State of the Union Address as “laws that punish hardworking people who want only to provide for their families, and deny businesses willing workers, and invite chaos at our border.”<sup>35</sup>

<sup>34</sup> *Estimates of the Size and Characteristics of the Undocumented Population.*

<sup>35</sup> President George W. Bush, “State of the Union Address,” February 2, 2005.

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