

## **EconoFact Chats: The Economics of Immigration**

**Giovanni Peri, University of California, Davis**

**Published on 29th January 2022**

Michael Klein:

I'm Michael Klein, Executive Editor of EconoFact, a nonpartisan, web-based publication of The Fletcher School at Tufts University. At EconoFact, we bring key facts and incisive analysis to the national debate on economic and social policies, publishing work from leading economists across the country. You can learn more about us and see our work at [www.econofact.org](http://www.econofact.org).

Michael Klein:

The musical Hamilton features the song 'Immigrants (We Get the job Done).' This song resonates because the United States has the largest immigrant population of any country in the world. And with the exception of native peoples and descendants of enslaved Africans, the vast majority of Americans who are not themselves immigrants can trace their ancestry to someone coming from abroad; be it a great grandparent, a grandparent or a father or mother. Nonetheless, immigration remains a hot-button issue for political, social and economic reasons. Going beyond the rhetoric, what is the economic effect of immigration? To what extent do immigrants get the job done? And what kind of jobs are these? To answer these questions, I'm very happy to have as my guest today on EconoFact Chats, Professor Giovanni Peri of the University of California at Davis.

Michael Klein:

Giovanni is a founding director of the UC Davis Global Migration Center. He's published widely on the economic effects of immigration, including I'm pleased to say, a number of EconoFact memos. Giovanni, welcome to EconoFact Chats.

Giovanni Peri:

Thank you, Michael. It's a pleasure to be here.

Michael Klein:

Well, it's good to have you on after all the memos that you've done for us, which have been really terrific.

Giovanni Peri:

Thank you.

Michael Klein:

Giovanni, since we'll be focusing on the economic side of immigration, let's start off with some basic numbers. How many working age immigrants currently reside in the United States?

Giovanni Peri:

Currently, there are about 37 million of foreign born in working age in the United States and they represent about 18% of the population in working age residents in the US.

Michael Klein:

And where did these people come from?

Giovanni Peri:

So during the last decade, they have come increasingly from Asia, especially from India, China, and the Philippines. While the population coming from Mexico, which historically has been the largest group of immigrants has actually declined. Mexicans still represent the largest group in the United States with about 10 millions, but other immigrants are growing much faster. Immigrants from Central American [sic] and from Africa, although they represent a smaller percentage, respectively eight and 5% of US immigrants, they have though been growing significantly faster in the last decade.

Michael Klein:

Giovanni, in the debate on immigration, there's a focus on the effects of low skilled immigrants in the economy. What proportion of foreign workers are in fact low skilled?

Giovanni Peri:

So economists usually consider workers who have a high school degree or less as low skilled because they do lower wage jobs, which are more manual and less cognitive intensive. So among immigrants in the US in 2020, 45% had a high school degree or less and 24% had some college and 31% had a college degree or more. However, among those who arrived in the United States in the last decade, only 34% had a high school degree or less, so were low skilled; while a full 47% had a college degree or more, so they were high skilled. As a comparison, the percentage of natives with a high school degree or less in 2020 was about 41%, and only 30% of natives US born have a college degree or more. So the population of recently arrived immigrant has a significantly higher percentage of highly skilled, than the US population.

Michael Klein:

And these highly educated immigrants make important contributions to the country. For example, like you.

Giovanni Peri:

Yes, yes. So college educated immigrants have a very important productive role in the US. To begin with, half of them are employed in the so-called STEM sectors, so science, technology, engineering and math. So they contribute very substantially to scientific and technological innovation according to data on patenting and invention in the US. This is crucial because innovation is the engine of productivity growth for US firms.

Giovanni Peri:

In a paper that I published in 2016 with Chad Sparber and Kevin Shih, we analyzed the change of the H-1B visa program, which has been the visa program bringing in the US as main channel of entry, the largest part of highly educated immigrant, working in science and technology. So in that study, looking at US location[s] where the number of foreign scientists and engineer increased the most from 1990 to 2010, as a consequence of this H-1B program, we found that those locations where also where productivity grew the most. Not only. Those were the location where wages and employment of US college educated grew faster. In fact, we calculated that about half of the productivity growth of the average US location in that period could be attributed to the growth of productivity driven by foreign born STEM workers.

Michael Klein:

So there's a real complementarity there that the foreign workers who are very highly educated, were actually helping US workers who are very highly educated as well.

Giovanni Peri:

Yes, because of specialization in different type of jobs, really, even highly educated college educated immigrants tend to help and complement the type of skills that Americans have. And this is been part of the reason why this large productivity and wage growth took place.

Michael Klein:

So pivoting now from the highly educated, highly skilled immigrants to those with less education, they're also very important for the economy, especially now. Your most recent EconoFact memo with your student, Reem Zaiour points out that at the time of the later labor shortage, the so-called Great Resignation, we have 2 million fewer foreign born workers today than what would've been the case had those numbers kept up with their trend over the decade before COVID. That's a striking number 2 million fewer.

Giovanni Peri:

That is right. Yes. Looking at this recent data from the Current Population Survey with Reem Zaiour, we actually noticed that from 2010 to mid 2019, the US population in working age was growing regularly by about 1 million foreign born individual each year. Then in part, because of the immigration restriction of the Trump Administration, and much more because of the travel and immigration ban starting in 2020, since 2020 immigration has essentially stopped. And this leaves the US today, as you said, with 2 million fewer immigrants, than if they had continued on that trend.

Michael Klein:

So what I thought was particularly interesting in that memo that you and Reem published was the correlation you found between the percentage of foreign workers in particular industries before COVID happened, and then the number of unfilled jobs in those industries in the COVID era. Can you talk a little bit about that?

Giovanni Peri:

Yes. So let me give you an example. What we found is that in sectors, such as food preparation or hospitality services, where the share of immigrant as worker was much higher than on average in 2019, those were also the sector which had the highest rate of unfilled job in 2021. So this implies that those sector which rely more on foreign worker are also those are experiencing largest shortages and the largest consequences of these shortages. Of course, large part of those 2 million missing worker would've been employed in those sectors. And so that could be an important reason why there are shortages.

Michael Klein:

So as Lin-Manuel Miranda said, immigrants get the job done. But if they're not here, they can't get the job done. That's right huh?

Giovanni Peri:

Absolutely. Absolutely. And as we have seen, they have been missing in the last couple of year when also some other reason brought some local native people to move out of the labor force. So this impact has been particularly strong in this period.

Michael Klein:

So there's some concerns about lower wage immigrant workers. And one concern is that these immigrant workers have displaced US workers. Well, we know that immigration is only one of many sources of what's befallen lower wage workers over the past decade. What do you see as some of the other sources of what has resulted in stagnant wages, and how would you rank immigration as a cause compared to these other sources?

Giovanni Peri:

So I would say that the economists' consensus is that wage and employment stagnation, especially for the median and the average US worker has been in large part driven by computerization, information and communication technology replacing mid to low wage workers, workers that perform jobs which were routine, and they can be done by machine now. In fact, wage and employment stagnation is much stronger in those type of jobs, such as office support, secretarial job, manufacturing assembly, which have been largely replaced by technology, rather than in other type of jobs, which are more manual intensive, such as restaurant service job, food service job, household and personal service job, which are harder to replace by machine and where immigrants have been in the largest number. So we observe a larger decline in those jobs, more in competition with technology than immigrant. And that's one of the reason why people tend to identify technology as a main factor in generating this stagnation.

Michael Klein:

Yeah, we had in EconoFact Chats episode a few weeks ago with David Autor of MIT and he's talking about this effect as well, what he termed the dumb-bell effect, the barbell effect, where there's a hollowing out of middle income jobs. And a lot of it has to do with these changes in technology and communications and computerization.

Giovanni Peri:

That is correct. And David Autor has been probably the most prominent author in pointing this out. I would say that another reason for a stagnation of those type of jobs, which has been identified as being the increase in offshoring and in import. So many manufacturing jobs and increasingly in the last few decades, some service jobs that can be offshored have also...the demand for this type of job is also declined and so wage and employment growth among those. Relative to this two factors -- technological change offshoring, I would say that immigration has been a much less relevant factor for wage stagnation. I would actually be even more precise saying the following: in the period, 1980 2000 when immigration was in fact had a large, low educated component, immigration may have contribute in part to lower wage growth, especially for non-college educated. However, since 2000 in the last 20 years, immigration has hardly contributed at all to wage stagnation.

Giovanni Peri:

First, as I said, because wages and employment have declined much more in those jobs in competition with technology than with immigrants. And second, because as I mentioned before, immigrant in the last two decades have been very highly educated. The share of college educated has been larger than the share of college educated among natives. College educated have continued to experience fast employment growth while non-college have stagnated. For this reason, I would say that immigration is not a major cause of wage stagnation at the mid to low range in the US for the last 20 years.

Michael Klein:

Giovanni, one of the most high profile immigration issues has to do with the so-called 'Dreamers,' people who were brought as children to the United States and don't have legal status. The DACA, the Deferred

Action for Childhood Arrivals program began during the Obama Administration to give some relief to these people. The Trump administration tried to rescind the program, but the Supreme Court ruled against the administration's arguments in 2020.

Michael Klein:

In July 2021, in response to a suit brought by nine state governments, a Texas federal district court ruled that DACA conflicts with the immigration law. But it also said that the Department of Homeland Security could remedy it by coming up with regulations. And the Department of Homeland Security did in fact issue proposed regulations in late September. There're of course many legal and ethical issues related to Dreamers, but we're economists. We're not good at dealing with legal and ethical issues, I suppose. So let's just focus on the economics of DACA. You have EconoFact memo back in 2017 in our first year, on the economic costs of repealing DACA, but just focusing on the economics. Can you explain what those costs are? And is there an updating of your conclusion that you had in that memo?

Giovanni Peri:

Yes. So the cost of repealing DACA are going to be the mirror effect of the gains of the introduction of DACA. DACA protected from the deportation population of many young individual, where the high school degree of many of whom pursued college degree and DACA by protecting them, allow them to find better jobs, jobs with more probability, and jobs with higher wages. The estimated impact of DACA after 2012, when it was introduced -- was that it brought a six to 7% increase in the employment of DACA recipients relatively to similar immigrants, and a similar increase, 6-7% in the earnings of the group. That was the effect when it was introduced. Then there is interesting research after that. The show that the election of Donald Trump in 2017, by introducing already uncertainty, although not fully repealing DACA, seemed to have reduced the positive employment impact of DACA on recipients from the 6-7% down to a 1% or even eliminated a lot of this effect.

Giovanni Peri:

The reason is that possibly people who are still protected by DACA have become more concerned of a repeal of DACA, and they have become less willing to change job, look for better job, moving to opportunity. And as a consequence, some of these economic effect of protecting them and allowing them better jobs have been eroded even without repealing. So this research seems to say that even before taking away a policy, a lot of uncertainty is associated with that, the effect can be quite important and quite pervasive, and give us a sense of what could be the cost of repealing that.

Michael Klein:

We've been talking about the effects of immigration for the country as a whole, but I imagine that the economic effects of immigration are not spread evenly across the country. There are cities and areas where there are more immigrants, both high skilled and less skilled, and places where there are many fewer. What do we know about the geographic distribution of immigrants?

Giovanni Peri:

Yes, Michael, for sure. The contribution of immigrants to local economies depend on how many of them are there. And this is very different across locations. So we know a few things. One is that new immigrants tend to go where existing communities of immigrant already are. And this is because immigrant follow information and economic opportunity that are usually channeled by previous immigrants. Moreover, in general, there is this tendency, both of high and less educated immigrant to concentrate in large, densely populated and growing areas. To give you an idea while there are about while the US population is only 12% made of immigrants, in the 10 largest US metropolitan areas, 30% of the population is foreign born. And in New York and Los Angeles, which are the largest metropolitan

areas, 40% are immigrant. So foreign born locate disproportionately in large, dynamic, highly productive areas, and evidence is that they contribute to their economy, both as a skilled professional, scientist technology expert, as well as manual workers in sectors like hospitality house, personal care, that these large cities need.

Michael Klein:

Yeah, my son and his fiance live in Queens. And it's amazing the extent of diversity as you just walk down the streets in Astoria and just see people from all over the world. It's really a wonderful thing I have to say. Well, does the uneven geographic distribution of immigrants enable researchers like you to study the economic effects in a more fine grained manner? Does it offer you what we call natural experiments to look at?

Giovanni Peri:

Yes, absolutely. You're right. So researchers often use the combination of two factors to study the economic effect of immigration. The first, as you just said, is this very uneven distribution of immigrant community across different US labor market, and this tendency of continuing through networks, and arrival of new immigrants.

Giovanni Peri:

The second fact that they use is that they look for often sudden and large inflow of some specific group of immigrants, usually driven by either crisis in their country of origin, or changes in admission policy. So when you have a sudden inflow of immigrants, which is driven by factors which are independent from what goes on in the US economy, economists say that you have a natural experiment.

Giovanni Peri:

The fact that immigrants, as a consequence of this big flow or natural experiment locate very differently across area, different areas because of this different presence of network generates the variation that we need to establish this causal effect through natural experiment. So we look at the impact of this on things like wages, productivity, local economic outcome, and by observing differences across outcome between area that receive many immigrants, and other they receive much fewer as a consequence of these natural experiment, but otherwise are similar, then we're going to get the causal effects of immigration.

Michael Klein:

So one prominent example of this that economists looked at very carefully, yourself included was the Mariel boatlift. Can you briefly describe what that was and what people found?

Giovanni Peri:

So the Mariel boatlift was a sudden inflow of about 100,000 Cubans who were fleeing Castro's regime and happened between April and September 1980. And more than half of them arrived suddenly in Miami. And this was consider an excellent episode to analyze as a natural experiment. David Card had an original, very famous study in 1992, and then several economists revisited it recently.

Michael Klein:

David Card just won the Nobel Prize for that kind of work.

Giovanni Peri:

Exactly, for really thinking hard about this natural experiment and establishing causation through them. And both the original study and our study, which compare Miami to similar labor market that did not receive this inflow showed that there is small and not very significant impact on local wages and local employment. Neither the average worker in Miami, nor the worker with relatively low education, which could have been in more direct competition, seem to have experienced a large wage change or employment change.

Giovanni Peri:

Now there have been some studies that have focused on smaller and more specific subgroup and they have found some negative impact, but when you focus on such a small group and the data were very, very sparse about them, you have very large imprecision, very large standard error. And so there is some doubt on the robustness of these results. Overall, we think that this very small impact on wage and employment of local people implies that the immigration was not just a change in labor supplies. These people also demanded local good and local services, so increasing local labor demand. They generated investment from firms and so increased the local capital. They started business themselves generating opportunity. And so in aggregate, the inflow of immigrants is also an increase in labor demand, and not just in labor supply. And that's why we don't observe a large wage impact even of these large and relatively sudden inflow as the Mariel boatlift.

Michael Klein:

So that's important that when labor comes in, they're not just workers, they're also consumers, something that often gets lost in the argument.

Giovanni Peri:

Yes, they are also consumers. They're also entrepreneurs. And as workers, they tend to do type of job which are often complimenting the one of natives. Putting together all these things, this can create enough of a strong demand effect to offset the potential competition effect that they have. And overall, we observe small wage impact and small employment impact of native, than we would, if they were only a labor supply type of shock.

Michael Klein:

So I guess the conclusion is Lin-Manuel Miranda was right. Immigrants, get the job done.

Giovanni Peri:

They do. And thanks to them. Americans can also get their own job done. So double game.

Michael Klein:

It works well. Giovanni, thank you very much for speaking with me today on this really important topic. And I enjoyed our conversation.

Giovanni Peri:

You're welcome, Michael. It was my real pleasure to be here.

Michael Klein:

This has been EconoFact Chats. To learn more about EconoFact and to see the work on our site. You can log into [www.econofact.org](http://www.econofact.org). You can subscribe on our site to our newsletter that will let you know when we publish new memos and new podcast episodes. Please feel free to share this podcast and our memos

with friends, colleagues and on social media. EconoFact is a publication of the Fletcher school at Tufts university. Thanks for listening.