

EconoFact Chats: Immigration and the Shortage of American Workers

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I'm Michael Klein, executive editor of EconoFact, a non-partisan, 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.

Michael Klein

There is a long history of immigration being a hot button issue in America. The Know Nothing Party in the mid-19th century opposed immigration from Ireland. The 1924 Immigration Act severely limited opportunities to move to the United States from southern and eastern Europe, and especially from Asia. The most basic purpose of that act was, according to the Office of the Historian of the Department of State, to preserve the ideal of U.S. homogeneity. There are echoes of that in today's debate. The Trump administration put in place policies mostly by executive actions that made legal immigration more difficult, and many of these actions have not been reversed by the Biden administration. There are a range of national implications of these policies. One of the most important of these is the effect on the United States labor force. The labor force participation rate fell dramatically with the onset of the COVID pandemic, and it remains at its lowest point in more than four decades. Could greater immigration help alleviate labor market shortages? If so, in what industries would they be most helpful? Or would immigrants take jobs from native-born Americans, or force down wages? To answer these questions, I'm very happy to welcome back to EconoFact Chats Professor Giovanni Peri of the University of California at Davis. Giovanni is the founding director of the UC Davis Global Migration Center. He has widely published on the economic effects of immigration, including, I'm pleased to say, a number of EconoFact memos that have garnered wide attention. Giovanni, welcome back to EconoFact Chats.

Giovanni Peri

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

Michael Klein

Giovanni, since we'll be focusing on the economic side of immigration, let's start off with some basic numbers. How important was immigration for population growth in the United States up until 2017, and what's happened since then?

Giovanni Peri

So first, to put things in a broader context, let me say that the natural growth of population for the US has been around 0.5 per year since COVID, and this is a number that has declined since the early 2000s when it was around 1%. As to immigration contribution to population growth, we can distinguish three recent periods. First, the period 2007-2017, in which the foreign-born population grew by about 1.5% per year, which counted about 1.2 million net new immigrants per year. This number dropped to only 0.45% in 2018 and 2019, and then in 2020 was even smaller, close to zero, in fact.

Michael Klein

Giovanni, what was the source of the decline in immigration?

Giovanni Peri

In the January 2017-December 2021 period, a series of executive order, more than 470 of them, in fact, were really aimed at transforming and constraining the US immigration system. This action ranged very broadly from increasing enforcement, to temporarily freezing refugee admission, and progressively moving away from family immigration and family reunification. Following these immigration policies, the international migration fell significantly. In fact, between 2016 and 2019, the number of new permanent residents to the US dropped by 13%, and the number of students who arrived on F1 visa declined by 23%. Then in the first COVID year, 2020, limitation to international travel and closure of offices essentially brought international migration to a halt.

Michael Klein

Has immigration picked up since then?

Giovanni Peri

Yes, immigration has increased in 2021, and then it had a substantial rebound in 2022. In fact, in 2021, for the first time, immigration has accounted for more than the natural increase of the US population growth due to the decline in the natural growth because of COVID. In 2022, the foreign-born population increased by a net of about 1.2 million people. The rebounds in 2021 and 2022 were in part the accumulation of backlog from 2020 due to delay and slow processing,

and then in part were also the effect of the removal of some enforcement and some executive policies by the Biden administration.

Michael Klein

We have a memo by Melissa Kearney of the University of Maryland that talks about the falling birth rate in the United States, and you cite that in your answer to that last question. Giovanni, much of the focus is on the southern border. What's been happening there?

Giovanni Peri

So, in the southern border, maybe many people don't realize, but Mexicans do not really migrate to the US any longer. Immigration from Mexico has been declining for a full decade. In fact, the recent migration has mainly been from Central American countries; El Salvador, Guatemala, and Honduras. This group of migrants have increased their flow to the US due to more networks of previous migrants, and push factors of violence and poor economic condition at origin. Plus, some crisis refugees have been having themselves like Venezuelan and Haitian leaving countries in very dire economic condition, and there has been some hope generated by the Biden administration to consider some of these people potentially for asylum. In reality, not very many qualify for asylum, and many of them don't really have a title to enter the US, and so really what we're observing is an accumulation of them at the border with the US.

Michael Klein

So, we've been talking about overall immigration. What about the inflow of workers from abroad, immigrants of working age?

Giovanni Peri

So, the newsletter from the San Francisco Fed that you cited before by Duzhak, shows that there was a significant pickup in immigration flows in the 2022 year. Foreign born in working age population, however, have declined significantly in the 2020 and 2021 period, so this rebound is from those lower levels. This is important because the natural growth of the population in the US because of retirement of baby boomers, in particular, in smaller younger cohorts will continue to grow slowly, and eventually decline. Currently, there are about 37 million of foreign born in working age in the US, and they are about 18% of the population in working age. But these demographic tendencies in the long run, the decline of the US labor force will continue, and in this context, immigration could have a beneficial effect. It could slow the increase in dependency ratio, which is the increase of retirees relative to working people, and can really help fill some jobs that Americans will not do, do not do any longer. At the same time, the same demographic trend is also happening in Mexico and Latin America. They are also populations which are slowing their growth and they are aging, and so one question is really what country will be the

country of origin of immigrants who maybe will replace the Mexican migration in some of these jobs? A lot of the part of the world where demographics are still fast growing, like North Africa and Middle East are closer to Europe, and a lot of those migrants will really go to Europe. There are a lot of migrants from India and China and Asia into the US, but those are mostly the highly educated immigrants.

Michael Klein

In the debate on immigration, there's a focus on the effects of low skilled immigrants in the economy, but what proportion of foreign born workers are low skilled?

Giovanni Peri

So this is important. Among immigrants who arrived in the last decade, almost half of them were college educated in the US. So the population of recently arrived immigrants, in the last 10 years has had a percent of highly skilled, college educated, which is significantly larger than the percentage of college educated in the US, which is only around 30%. This group also has been made largely of those from Asian countries of origin—India and China. And these are people who have arrived on H1B visa for skilled and professional worker, student visa, and employment visa. Already before Trump, before the 2017 period, immigration to the US was significantly biased toward high skilled immigrants.

Michael Klein

So the memo that I talked about earlier by you and Reem Zaiour has gotten a lot of attention, picked up in a number of different outlets. And in that research that you did originally for EconoFact, you showed a link between a shortfall in immigration and unfilled jobs, sector by sector. Can you talk a little bit about that?

Giovanni Peri

Yes, in the first year, year and a half since March 2020, after COVID, we estimated in that paper that there was about a two million gap in foreign born in working age, arriving in the US relative to the pre-2019 trend, relative to how many we would have had if we had continued on that trend. So this we also showed had likely affected substantially some sector that employed a large share of immigrants like agriculture, hospitality, some personal services. In this recent newsletter from the San Francisco Fed by Duzhak, they also look at these shortages of immigrants and they show that in the post 2021 period, there was a rebound. Plus, they show that immigrant inflow is associated to the vacancy to unemployment ratio across states in the US, meaning new arriving immigrants reduce the vacancies, the number of job open per unemployed, because they can actually fill some of these vacancies. Immigrants have been very important to fill these vacancies

in the 2021-2022 period, but we're not filling them at all in the 2020. And that was the initial shortage that we had pointed out in this paper with Reem Zaiour.

Michael Klein

So you talk about vacancies. What types of jobs will have the highest rates of vacancies in the future? And can immigrants fill these positions?

Giovanni Peri

So a big group will be those jobs that need to be done in place, like restaurant type of job, care of the house, personal care. This job with the aging of the American population will increase, the demand for this job will increase. Another category of jobs are health and child-care types of jobs. Immigrants typically have filled a very large share of these jobs and there are projected shortages. Technology could be a margin of adjustment to supply labor in a sense. So possibly robots will do some of these jobs, but certainly the technology is not quite there yet and robots will not slow down the aging of the population nor balance the age composition of the labor force. Another sector where there will be continued need for immigrants is the STEM—Science, Technology, Engineering and Math—where new ideas are created and the inflow of new people like immigrants has in the past generated this level of innovation we have in the US. In this job maybe some transformations also are happening, but there will certainly be need for immigrants as well.

Michael Klein

You mentioned technology. In an EconoFact Chats podcast that we just did with Lant Pritchett, he talked about the introduction of technology as a result of reducing immigration because there are actually, as Lant puts it, lots of truck drivers all across the world who would be happy to come to the United States and work for higher wages, but instead we have self-driving trucks, or the prospect of self-driving trucks. So the technology is not itself something that just happens. It's actually a response to policies and to market conditions. Another interesting change, especially since COVID, is remote work. How will remote work change the need for immigrant labor?

Giovanni Peri

Remote work will, and is, having a big impact on many parts of the economy. However, some of the sectors that we discuss, where immigrants are very prevalent, are also those sectors where remote work has been and is still quite hard. If you think about in-person, manual, physical, type of services such as serving food, cleaning house, cleaning structures, assisting people, assisting children, those are relatively hard to be replaced by remote work. And as I said, the increase in age of the population also will bring an increase in demand for these services. Technology can

help, remote work can help in some areas, but in this area seems to be a little farther and maybe they will be less affected. The other jobs, on the other hand, the high-tech science, technology, engineering, math type of jobs, which immigrants have been filling, those are clearly strongly affected by remote work and many of them are increasingly done in remote. In fact, some urban economists are studying the urban structure in the US and they are noticing that after COVID, a lot of downtowns, which had a lot of these high-tech jobs, are being depopulated. San Francisco is a prominent example, and some of the connected services which were linked to this type of job that now we're doing remotely, also they may have become less concentrated in cities and more dispersed. And so in that respect, both the geography within the US, and the dispersion of immigrants and services attached to this office services can be changing because of remote work.

Michael Klein

We have a couple of recent podcasts about remote work. Matt Kahn did one and he made the same point as you. And then a little bit earlier, we had one by Nick Bloom at Stanford. He also made the same point, what they call the donut effect, where sort of there's this hollowing out of the center cities. Giovanni, what about the effects on the native born? Does immigration affect native born workers' employment rate or their average wages?

Giovanni Peri

So my research for a long time has tried to show that as immigrants are really employed in different type of job, do different type of task, their effect on wage and competition is smaller. And in particular, even in this economy, if immigrants fill bottlenecks and niches, which are experiencing shortages, because natives are not really filling those jobs, then the inflow of immigrants will not affect very much wages and employment of natives, because they will not be in direct competition with them. On the other hand, having more immigrants to fill this bottleneck can ease the transition and the growth of an economy, which may generate jobs elsewhere. In the last 10 years, as I said, large part of immigrants have been college-educated. They have increased the supply of their group, but the wages and employment of the group has actually increased even for natives. In recent research, in response to these COVID shortages of immigrants, we also show that natives do not seem to move into those locations and into those types of jobs that are missing immigrants as a further confirmation that the jobs that they're doing are somewhat different. And so I do not think that the competition wage effect, and employment effect, will be and are very strong.

Michael Klein

So in terms of economic terminology, immigrants could be a complement, not a substitute for US workers. Is that correct?

Giovanni Peri

That's exactly correct. So they will work together and they will provide some type of job and task that complement, that they work with rather than replace or compete with natives.

Michael Klein

Giovanni, there's a lot of talk about immigration reform and Professor Jennifer Hunt of Rutgers has put forward some proposals in a recent report for the Brookings Institution. Are you familiar with her proposals? And if so, what do you think of them?

Giovanni Peri

Yes, I have read Jenny's proposal and I find it very interesting. So Jenny essentially proposes to shift the inflow of immigrants from more family-based, to more employment-based and humanitarian. She argues that this will increase the inflow of high-skill immigrants. And at the same time, she says that there are some areas in which the need for immigrants should generate specific categories like immigrants in health care, both low and medium educated immigrants could be employed there. And in some services and in agriculture, there is the need for immigrants and so there should be programs that allow immigrants in those sectors. I think overall, a system of immigration that is more based on employment needs on one hand, and on humanitarian needs and response seem to me more efficient, and also founded on solid ethnic basis and easier to support by citizens. In fact, in terms of family reunification of immigrants, I would say that certainly we will need to guarantee family reunification to parents and minor children. That's the structure of the family that we give a lot of value to. But I don't see as a stronger case to allow visa and entry for siblings, parents, adult children. So I would reduce those types of entries and visas and increase employment and humanitarians. In particular, I think some categories of immigrants have been extremely valuable. Students who arrive in the U.S. and then stay as workers; they have had a very strong impact on the economy. Immigrants in some sector can be very important: health care, elderly care, personal assistance and agriculture. Also, I think we should make some provision to allow them there because they are extremely valuable. So finding legal ways to get immigrants in those areas would be extremely positive.

Michael Klein

Well, immigration reform is something that people have been talking about for a very long time. And I hope that your research and insights on this and the work of people like Jenny Hunt helps move it forward with a rational basis instead of something based on fear or dislike for the outsider. So Giovanni, thank you very much for joining me today and providing your ideas and your insights on this really important issue.

Giovanni Peri

Thank you, Michael. It's been my pleasure being with you.

Michael Klein

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