

EconoFact Chats: Immigration and the U.S. Economy
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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

The 2004 movie “A Day Without a Mexican” imagines what happens when all the Mexicans in the state of California suddenly disappear. Among other consequences, economic chaos ensues with the loss of a significant part of the workforce. The broader issue raised two decades ago by this science fiction satire has real relevance today when immigration is a divisive and contentious issue. What role does immigration play in the American economy? How has immigration affected the recovery from the COVID recession? What parts of the economy are particularly dependent on non-native Americans? With low birth rates, how important is immigration for the future growth of the economy and for the solvency of Social Security and Medicare? These questions are addressed in recent research by Tara Watson. Tara is a professor at Williams College, and is also at the Brookings Institution. She served as Deputy Assistant Secretary for Microeconomic Analysis at the U.S. Treasury from 2015 through 2016. She and the writer Kalee Thompson have the book ‘The Border Within: The Economics of Immigration in the Age of Fear’—the topic of an earlier EconoFact Chats episode. Tara, welcome back to EconoFact Chats.

Tara Watson

Thanks, it's nice to be here.

Michael Klein

Tara, let's begin with some demographic facts. Population growth is determined by the number of births minus deaths, the so-called natural rate of change, plus net migration. What's been happening to the natural rate of change of population in the United States?

Tara Watson

So if we look at deaths and births, we see that on the death side, the death rate at any given age has largely been declining or has been flat. But because the baby boomers are entering their older years, and we have an aging population, the raw number of deaths is actually increasing. And at the same time, we have fertility going down. And so what we end up with is a situation where births are barely keeping up with deaths, and in fact, we may end up with a negative natural rate of increase, in demographer's terms, meaning that the population would be declining if not for immigration.

Michael Klein

I guess that immigration, or net immigration, is more challenging to measure because it represents both the change in the number of lawful permanent residents, and others who are less easily counted.

Tara Watson

That's true. You would think that it wouldn't be so hard to know who was living in the U.S. borders, but it turns out to be a pretty complex question. And historically, demographers and statisticians at statistical agencies go out, and they do a lot of measurements and try to figure out the numbers of net migration—so people coming to the US minus people leaving in the US. And they tend to come up with pretty similar numbers and those numbers seem reasonable. But we're at a point right now where there are quite a few, quite different, estimates of migration out there. So the most recent estimate put out by [the] Census [Bureau] is that 1.1 million people on net came to the U.S. in the year ending July 2023, which is how they calculate it – July to July. Whereas the Congressional Budget Office, CBO, they say that 3.3 million people came in calendar year 2023. So there's a little bit of a difference in timing, which actually exacerbates the difference because there were a lot of people who came in the second half of '23. But even separate from that, these two agencies have different ideas about what's been happening, and that's because we don't always know who is here and who is not here.

Michael Klein

Part of the problem is out-migration is not well measured. In fact, we have a nice EconoFact memo by Randy Akee—who's now at UCLA—about out-migration. I was surprised to see how many people who migrate to the United States subsequently leave as well.

Tara Watson

Yeah, we don't have great data on that. We don't count people as they leave, particularly if they cross across the southern border by car. We do a better job when people leave by air because we have our security systems in place to know who's getting on airplanes. But, we really don't know how many people leave in any given year, either from the foreign-born population or, frankly, we don't have great estimates on the U.S.-born population either. And then there are some categories of people coming into the country that we also don't have great measures of. So that would include people who are surreptitiously crossing the border. The Congressional Budget Office put out a recent estimate that's close to a million. But the Department of Homeland Security has not confirmed that. But the most recent guess from fiscal 2022 was 600,000. So we're talking about quite a few people coming in in an unauthorized way. And then we have also, in addition to that, a lot of activity at the border where we do know people are coming in. And we can see that it's been quite a lot of people in the past two years or so. So many people coming to the border making a claim for asylum, and being led into the country while they're waiting for those claims to be adjudicated.

Michael Klein

So, even given these difficulties, Tara, do we have a sense of how immigration has contributed to the overall population growth in the United States over the past two decades?

Tara Watson

We do have a pretty good sense of that coming from the fact that we know that the natural rate, that we talked about earlier, the births and the deaths, are changing in such a way that there isn't much growth coming from population births. And there's not a lot of hope that coming down the pike, there's going to be a rapid rebound in our fertility rate. So what we expect is that going forward, immigration is going to be the largest generator of population growth. And our natural

rate will be almost zero. And immigrants help with this, in part, because they also have higher fertility rates than the U.S.-born population on average. And so they both generate more population growth from births and also are, of course, contributing to the population directly.

Michael Klein

So we've been talking about the effect of immigration on population growth. I guess there's a subtle difference between the effect of immigration on population growth, and the effect of immigration on the labor force because, obviously, children don't work, especially old people don't work. So do we have any sense of how immigration has affected the labor force?

Tara Watson

Yeah, so if you look at the numbers, immigrants tend to come to the U.S. as working-age adults, and especially sort of in their younger working-age years. And so what that means is the group of people who come to the U.S. is disproportionately in that working age. And then immigrants also tend to have pretty high labor force participation rates, meaning they're likely to be employed. And the combination of those things mean that their contribution to the labor force is even bigger than their contribution to the population growth. So there was this analysis that came out very recently that immigrants have fully been responsible for the rebound in the labor force that we've seen post-COVID.

Michael Klein

Is that, in fact, your analysis that you did in a Brookings paper?

Tara Watson

Yeah, our Brookings paper also finds something.

Michael Klein

Oh, you're being too modest, Tara!

Tara Watson

So, yes, what we did in the Brookings paper is we looked at a recent Congressional Budget Office estimate that I mentioned earlier, came out said there were 3.3 million people who came in 2023, and higher numbers in 2022 as well, than we previously thought. So we said, let's assume that's all true. What does that mean for economic activity? And we did see that that would be enough to explain a lot of the growth in employment that we've been seeing and have been a little bit puzzled by.

Michael Klein

In fact, the puzzle is why we've had strong employment growth without inflation staying high, or prices rising more rapidly, right?

Tara Watson

Right. So if you were to go back in time, pre-pandemic, before we knew any of this was going to happen, people would have projected that we were going to be able to generate somewhere between 60,000 and 140,000 jobs in 2022, 2023, 2024. And they were assessing that based on what we know already about the population, the fact the population is aging, people are entering

retirement age. And so we weren't going to be able to sustain 200,000-300,000 job growth numbers. And if we tried to get there, the concern was that we would be overheating the economy. So we would be trying to get people into the labor force, we would be driving up wages, but then prices would have to rise in response because we weren't actually producing more goods and services. So there's this concern about overheating the economy and that would result, potentially, in a lot of inflation. And so what we saw was there was a lot of growth in jobs—more than we thought we could handle without generating a lot of inflation—but we didn't have the inflation to go with it by the time we got to 2022-2023. So we were a little bit puzzled by this. And the question is, how could the economy continue to be so robust coming out of COVID, given what we knew, already about the labor force. And so once these new estimates came out that suggested maybe we have a lot higher immigration than we thought, that gives us sort of a clue that the puzzle may be resolved because we've actually had quite a bit of growth in labor force coming from the new immigration [inaudible].

Michael Klein

This is the mirror image of what happened during COVID, right? When borders were closed and there was a big shortfall of workers coming into the United States and then a lot of jobs, people just...employers couldn't fill them because of that, right?

Tara Watson

Right. So we had this shutdown more or less of the border during the peak of COVID concern, and even before COVID, there was a little bit of a slowdown that had come from 2016 and especially in 2019. COVID really shut things off for a while. And so as we emerged from the COVID recession and we wanted to be buying things and doing things, there just weren't enough workers to meet those goals. And we saw it especially in areas where the immigrant workforce was really important.

Michael Klein

And those are things like healthcare, agriculture, those kinds of sectors?

Tara Watson

Yep. And also retail services. So as people were sort of ready to go out and about, it was difficult to find the workforce that businesses were looking for.

Michael Klein

So that's about specific sectors. Overall, Tara, what do you estimate is the effect of immigration and economic growth in the post-pandemic recovery?

Tara Watson

So we did release Brookings piece recently. This is joint work with Wendy Edelberg, who's a macro-economist. And we took that 3.3 million number that I mentioned from Congressional Budget Office and we said, let's assume that's right. What would that have generated on its own in terms of macroeconomic activity? And so, the numbers we get there are \$48 billion in personal income for 2023, \$46 billion in consumer spending, and GDP growth of 0.1% over what we would have otherwise seen. Possibly maybe more like 0.2% if you consider the spillover effects that that economic activity had onto the rest of the economy. So if we think

about what happened, a lot of people came. We got both a supply response in terms of people being able to generate more labor force activity. And then also a demand response coming from the fact that immigrants themselves, of course, live here and are demanding goods and services and so stimulating the economy in that way.

Michael Klein

So, I'd like to shift gears a little bit. We've been talking about business cycles, that is, what happens to the economy over quarters or even years. But there's also a very important role of immigration in terms of longer-term outcomes. I started off talking about population growth and the solvency of Social Security and Medicare. This is tied to the economic concept of the dependency ratio. Tara, can you explain what the dependency ratio is and how it's been changing in the United States?

Tara Watson

Sure. So the idea of the dependency ratio is to try to estimate how many people of working age are supporting people of older age; that's called the old age dependency ratio. And so one common measure of this would be the number of people who are 18 to 64 relative to the number of people who are 65 and up. And when we look at that number, if we go back to say 1970, there were 5.7 people of working age for every person that was 65 and up. And fast forward to today that 5.7 now has gone down to something like 3.7. And so there are just many fewer people in the workforce who are supporting the older population. And that's expected to, of course, fall further for the reasons we already talked about, so going down to 2.7 by 2040. And that's especially coming as the baby boomers get into this older age group. And so what that means is that some of our programs that older adults really rely on aren't going to be easy to fund. They are relying on people contributing through the workforce. They're largely funded through payroll taxes. And if we don't have enough people working, we don't have enough funds to sustain those programs, Social Security and Medicare.

Michael Klein

Tara, this issue about the dependency ratio matters because Social Security is a pay-as-you-go system. When I get Social Security, it's not money that I put in. It's money that people currently working are putting in. And when I put into Social Security, I wasn't saving for myself. I was paying for people who had retired, correct?

Tara Watson

That's right. We do have a trust fund, which we set up in part to accommodate the fact that we have this big cohort of baby boomers who are going to need to retire. And this issue was foreseen to some extent, but that's expected to expire around 2033. And after that, we are going to be in a pay-as-you-go system. And in fact, we're going to be having trouble even raising enough money to sustain the programs.

Michael Klein

Unless there's a lot of immigration.

Tara Watson

Immigration can help. Yes, exactly.

Michael Klein

Can you describe how immigration helps?

Tara Watson

Sure. So we have people come in. They tend to come in at pretty young ages and they tend to be in the workforce. They're contributing through those payroll taxes. And then they may or may not claim Social Security later, depending on their status at that point. But in the meantime, they've contributed a lot to the system and helped preserve the system and the solvency of it.

Michael Klein

Also on the fiscal front, some people argue that immigrants are a drain on public finances. Fran Blau and Gretchen [Donehower] wrote an EconoFact memo based on their National Academies of Science study, showing that this isn't the case, especially if you consider the overall contribution of immigrants, and their children, to fiscal balances. In your work, you also look at this from the perspective of unauthorized immigrants. What do you find?

Tara Watson

We, in the book, go through some of these same calculations from the National Academy's report. And it's true that the undocumented population overall, especially over the long run, does not raise the fiscal costs for taxpayers. In fact, it goes the other way. But I do want to acknowledge that right now, we're in a moment where a lot of states and localities in particular are facing fiscal pressure coming from the fact that we've had a pretty large immigration wave in the past two, three years. And it's really states and localities that end up having to support immigrants as they get settled. So right at the beginning, people sometimes aren't paying as much in taxes as they're getting in benefits, as they take a little time to have permission to work, to get their job going. And of course, in the meantime, they often need health care, housing, and other supports and services. Especially if they're coming from a country that was in crisis, in kind of a rushed scenario, like many of the current people arriving are. And so what we expect, based on what's happened in the past, is that over time, immigrants integrate into the economy. They have better paying jobs over time, which usually takes about five years for the wages to catch up to U.S.-born levels. But at that point, they eventually become very important contributors to our fiscal picture, and especially that's true on the federal level. And that goes back to those payroll taxes that we were just talking about. So they're contributing a lot to federal government coffers. And so Wendy Edelberg and I have a piece from about a year ago arguing that right now, when there's a short-term influx, the federal government should actually be redistributing some funds to the states and localities that are absorbing a lot of immigrants so that they can use it to help immigrants get on their feet. And in the end, the federal government will still be a fiscal winner.

Michael Klein

So that redistribution point, if you think about the number of immigrants that are coming into the United States, even when it's called a surge, that's still a pretty small proportion of the overall U.S. population. But it's being concentrated in certain places. So I guess that speaks to the importance of a federal system of, sort of, one part of the country helps out another part of the country when things like this arise. Is that correct?

Tara Watson

I think that's a fair characterization. I also think in the immigration space, immigration policy is rightly in the purview of the federal government. And the federal government is making these decisions. And I think some localities and states get frustrated when they have to live with the consequences of those decisions and don't feel like they have agency. And so recognizing that there are these costs and supporting states as they incur those costs, again, they're generally in the short-run, because if you look at the long-run, immigrants are not a fiscal drain. But right when people arrive, they often aren't working on day one, and they often need some supports. They generally aren't eligible for major safety net programs on day one, but they will still be accessing some supports from states and localities. And so I think you're right that it's not a huge number of people, even though 3 million sounds like a lot, that's 1% of the population or less. But there are a lot of people going to specific places, and they are representing a large fraction of the growth in the population in those places.

Michael Klein

So overall, Tara, how would you conclude as to the importance of immigration and immigrants to the United States economy?

Tara Watson

I would argue that immigrants are essential to the future growth of the U.S. economy, and that might sound hyperbolic, but I actually don't see how we sustain a strong U.S. economy going forward without immigration, given that we are projected to have declining population, just from our own fertility. We really need immigrants for our workforce growth, that's true right now when we have this very robust economy, but it's also true in the long-run when we know we're going to have an aging population, we know we're going to need to support our older friends and relatives, and also frankly, we will also need direct care—people to work in the field of nursing home attendants, and home health aides, and all the other supports that are so important to making sure that people have a healthy and satisfying later-life.

Michael Klein

So of course immigration is a multifaceted issue, but the economics of it is often distorted, I think, and I really appreciate Tara, you coming on the program today to describe careful economic analysis of what immigration actually means for the United States. And I hope that this helps to inform the public debate, at least within the dimension of economics. So thank you for coming on, and especially thank you for doing such important, relevant, and precise work.

Tara Watson

Thanks, it's nice to talk to you.

Michael Klein

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