Immigration and the U.S. economy

Throughout U.S. history, the tide of immigrants has ebbed and flowed—mostly flowed, lest the Nation have remained a relatively thinly populated realm on the North American continent. But the question of the effect of immigrants on the economy has vexed economists at least since the shift of the United States from an agricultural and manufacturing powerhouse to a more service-oriented economy began in earnest during the 1960s and 1970s. For some time now, the popular press has posed the issue as whether immigrants take jobs away from U.S.-born workers or whether they occupy an essential economic niche, performing jobs that U.S.-born workers shun. Rather than address this emotionally charged issue specifically, Giovanni Peri seeks to learn whether the aggregate effect of immigrants on the U.S. economy (including the effect on U.S.-born workers) was positive or negative from 1960 to 2008.

In "The Effect of Immigrants on U.S. Employment and Productivity" (Federal Reserve Bank of San Francisco, *FRBSF Economic Letter*, Aug. 30, 2010), Peri summarizes his own recent research, and research that he has undertaken with a colleague (Chad Sparber), showing that the economic effect of immigrants on U.S.-born workers has been mostly positive. Specifically, (1) for the period from 1960 to 2008, no statistically significant effect of immigrants on the net job growth of U.S.-born workers was found, suggesting that "the economy absorbs immigrants by expanding job opportunities rather than by displacing workers born in the United States"; (2) there is a short-term negative effect in which the capital intensity of the economy is reduced as businesses try to adjust their productive capacity (equipment and structures) to make use of the immigrants, followed by positive medium- and long-term effects wherein, after businesses have made the adjustment, output per worker increases; and (3) immigration is associated with the two offsetting effects of an increase in average hours per worker and a decrease in the average level of skill per worker.

In carrying out the research, the author and his colleagues were of course faced with the challenge of identifying the effects of immigration on the economy without knowing what would have happened if immigration levels had been different. To circumvent this obstacle, they used State-level differences in immigration growth to estimate short-, medium-, and long-term effects of the impact of immigrants on output, income, and employment. That is, the different influxes of immigrants across States since 1960 served as a proxy for counterfactual levels of immigration. At the same time, the authors controlled for (1) non-immigrant-related variables that might have contributed to differences in economic outcomes and (2) State-specific effects that may have attracted immigrants, but only incidentally, because they attracted migrants in general to the State. Toward the latter end, the authors focused on historical and geographical factors (for example, proximity to the U.S.–Mexican border) unrelated to State-specific economic conditions.

The chief finding of the research was that there is no evidence that immigrants are having a deleterious effect on the U.S. economy. Statistical tests showed that both employment and hours per worker were unaffected in the short term by the hiring of immigrants. Even more, in the long term, employment remained unaffected while hours per worker actually grew slightly. The lone negative effect was that, in both the short and long term, the average skill level of workers was reduced somewhat, because immigrants' education levels are, on average, lower than those of U.S.-born workers.

A second finding was that immigration was associated with an *increase* in the average income of U.S. workers over the long term. (No significant effects on income were observed in the short term.) Specifically, a 1-percent rise in immigration resulted in an increase of 0.6 percent to 0.9 percent in income per worker, meaning that total immigration to the United States from 1990 to 2007 produced a 6.6-percent to 9.9-percent increase in workers' income. In dollar terms, those percentages translate into a gain of about $5,100 in the annual income of the average U.S. worker, in constant 2005 dollars, or 20 percent to 25 percent of the total real increase in average yearly income per worker between 1990 and 2007.

Finally, the author concludes that the long-term growth in income per worker attributable to immigrants is due mainly to increases in efficiency and productivity. Tests of physical capital intensity, skill intensity, average hours worked, and total factor productivity show that, although in the short term net immigration

decreases physical capital (the resources used to produce goods and services) per unit of output, in the medium-to-long term businesses expand their equipment and plants to accommodate increases in production attributable to the hiring of immigrants. According to Peri, in effect, businesses make adjustments, first hiring immigrants in the short term and then upgrading and expanding their capital stock in the long term, to take full advantage of the new labor supply that immigrants offer. □

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