The Center for Growth and Opportunity at Utah State University

Immigration as a Tool to Boost U.S. Economic Growth and Prosperity

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June 2020

As unemployment rates soar, policymakers may be tempted to try to protect American workers from perceived labor market competition from immigrants. Slamming the door shut to new immigrants and even making some current immigrants leave may seem like a surefire way to make more jobs available to laid-off American workers. But such moves would do little to create jobs in the short run and would prove counterproductive in the longer run.

Policymakers need to recognize that the labor market is not zero-sum. There is not a fixed number of jobs in the economy. Rather, the economic pie grows with more workers and with the capital that accompanies labor.

Foreign-born workers rarely take jobs away from U.S.-born workers. Instead, most employers turn to immigrants when they are unable to find American workers with the needed skills or vocation. Immigrants in occupations where supply cannot otherwise increase fast enough to meet demand or in jobs that U.S. natives eschew are complements to native-born workers. Many immigrants are in STEM occupations that are central to technological and medical innovation and spur investment in R&D. Immigrants create jobs for some U.S. natives via those channels as well as by starting new companies and adding to aggregate demand. Decades of studies, summarized by the National Academies of Sciences, Engineering, and Medicine in 2017, provide little evidence that immigration harms U.S. natives' employment.[1] Any adverse effects fall primarily on earlier immigrants, not U.S. natives.

As we argue in this essay, the U.S. economy faces structural challenges that predate the COVID-19 pandemic. Immigration can help ameliorate these challenges. In the short run, there is little immigration policy can do to help spur economic recovery. However, bad policy choices would slow down the recovery. In the longer run, well-designed immigration policy reform would help pave the way to faster economic growth and assist the government in paying off the massive bills that will eventually come due.

Short Run Dynamics of Immigration and Growth

Immigration naturally slows during a recession. When employers stop hiring and wage growth stalls, there is less demand for and supply of foreign workers. With over 40 million jobless claims filed since March and the unemployment rate the highest it's been since the 1930s, immigrant inflows are likely to remain low in the near term. This makes it unnecessary for lawmakers to impose additional restrictions. Employers will be reluctant to incur the expense of sponsoring foreign workers for temporary visas or permanent residence when equally qualified American workers are readily available.

In some industries, however, domestic workers are not readily available, not even during a recession. In such cases, recession-induced immigration restrictions can be damaging. This extends beyond the limited exemptions to restrictions on temporary worker visas recently announced by the administration, namely H-2A agricultural visas and visas for COVID-19-related medical workers and researchers.

Immigrants are overrepresented in many sectors classified by the Department of Homeland Security as "critical infrastructure industries." These include not only relatively low-skilled farm workers and food processors but also relatively high-skilled workers in healthcare services and pharmaceutical industries. Preserving access to immigrant workers who are essential to these industries ensures not only that food, medical, and other supply chains remain intact during the economic downturn but also safeguards the companies that produce these goods and services as well as the jobs of the Americans that they employ.

There is also little reason to impose additional restrictions on family-based immigration, which was already in sharp decline before the pandemic began. The number of newly arrived immigrants granted permanent residence on the basis of family ties fell by over 16 percent between fiscal years 2016 and 2018.[2] It's not clear whether would-be immigrants were deterred by tougher scrutiny of applications, perceptions of a more hostile climate towards immigrants, or other factors. Regardless, the downward trend was apparent even before the new "public charge" rule, which will make it difficult for people without strong finances to receive permanent resident status, was imposed.

Long-Run Outlook

The downward trend in immigration is troubling and points toward what could be a costly mistake by policymakers: imposing new rules that make the United States a less attractive place to potential immigrants for years to come. Even before the pandemic, the United States faced major long-run challenges, including an aging population, sluggish labor force and productivity growth rates, declining economic dynamism, and a growing federal debt. Immigration tends to reduce these problems and can have an even greater positive impact if policymakers prioritize reforms that would boost immigration's benefits.

Like many other industrialized countries, the United States faces a demographic ticking time bomb due to its aging population. The baby boomers are reaching retirement age, and birth rates are falling. While the United States has a large surplus of available workers right now because of the layoffs due to the pandemic, the underlying long-run trends are worrisome. The Congressional Budget Office (CBO) forecasts potential labor force growth of only 0.3 percent a year over the next decade.[3] The CBO lowered its forecasts for U.S. employment and output growth even before the COVID-19 outbreak in part because of slower growth in the population and labor force. The fact that immigrants and their U.S.-born children will make up all of the labor force growth over the next 15 years points to the essential role of immigrants in the economy.[4] New immigrants tend to be near the beginning of their careers, so admitting more of them, particularly on employment-based temporary or permanent visas, is a quick way to jump-start labor force growth. The country will need more immigrants, not fewer, once the economy recovers.

Immigrants, particularly highly skilled ones, are an important source of productivity growth, which also has been low by historical standards. Much of highly skilled immigrants' contribution to productivity growth is due to their disproportionate representation in STEM occupations and their higher rates of patenting and other innovative activities. Their tendency to settle in fast-growing urban areas also contributes to productivity growth via agglomeration economies. Immigration policies like the H-1B visa program, the Optional Practical Training (OPT) program, and readily available international student visas have attracted those highly skilled immigrants to the United States or enabled many of them to stay here. Instead of making it harder for young adults to access these visas and programs, policymakers should create easier and wider pathways for student visa holders to transition to H-1B visas and then for H-1B visa holders to transition to permanent resident visas.

Internal migration and business formation rates have been falling in the United States for decades, signaling a less dynamic economy. The causes of both declines are unclear, but the implications are clearly bad for economic growth. Lower geographic mobility among workers constrains businesses' ability to expand their operations, and young businesses play a critical role in innovative activity, which in turn contributes to productivity growth. Immigrants, particularly new arrivals, help offset the trend of reduced dynamism since they tend to go to growing areas and start new businesses. Immigrants are twice as likely as U.S. natives to start a business, and they found many of the high-tech businesses that are engines of economic growth.[5] Yet, unlike Australia, Canada, New Zealand, and many European countries, the United States lacks an entrepreneur or business start-up visa program.

The national debt is high and growing. Federal debt held by the public exceeded $17 trillion before the pandemic, and now it's projected to end the fiscal year at nearly $21 trillion. The projected deficit for FY 2020 more than tripled as a result of the pandemic. The United States is fortunate that the rest of the world has been willing to finance its debt at low interest rates. But the desire to hold U.S. debt depends crucially on the strength of the U.S. dollar, and so is subject to change. In addition, even at low interest rates, debt payments will take a growing share of the government's budget and result in a diminished capacity to spend on items such as health care, education, and infrastructure. Having a larger workforce would help repay the debt sooner, and stronger economic growth in the coming years would help even more. Increasing the number of foreign workers in the United States, particularly highly skilled ones, is a relatively easy way to achieve both higher net tax contributions and faster growth.

The United States can best increase immigration's contribution to economic growth by prioritizing admission and retention of highly skilled immigrant workers, particularly those in STEM fields and health care. As we've advocated elsewhere, the best way to do this is to use auctions in place of the current first-come, first-served or random-lottery visa system.[6] Auctioning permits that would allow employers to hire foreign workers would allocate visas to their highest-valued use and maximize immigration's economic impact. In addition, the United States should implement a program for entrepreneur or start-up visas to encourage innovative immigrants to come or stay here. Reversing the downward trend in international students would help ensure U.S. employers have an adequate supply of highly skilled workers in the future as well as benefit cash-strapped U.S. colleges and universities.[7]

The United States should be a beacon of opportunity that welcomes talented, hard-working people, not one that closes its doors to foreigners. Immigration is not a silver bullet that can solve all the challenges facing the U.S. economy but, if managed sensibly, it can be part of the solution. Disrupting immigration in the short run may well harm or delay the recovery from the pandemic. In contrast, carefully crafted reforms will enable immigration to further boost economic growth and prosperity in the long run.

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The Center for Growth and Opportunity at Utah State University is a university-based academic research center that explores the scientific foundations of the interaction between individuals, business, and government.

The Immigration and Economic Recovery Symposium explores what role immigrants play in the economic recovery of the United States post-COVID crisis.

Endnotes

1 *The Economic and Fiscal Consequences of Immigration*, (National Academies Press, 2017), https://www.nationalacademies.org/our-work/economic-and-fiscal-impact-of-immigration.

2 Department of Homeland Security, "Table 6. Persons Obtaining Lawful Permanent Resident Status by Type and Major Class of Admission: Fiscal Years 2016 to 2018," 2018, https://www.dhs.gov/immigration-statistics/yearbook/2018/table6.

3 "Data Supplement: The Budget and Economic Outlook: 2020 to 2030," *Congressional Budget Office*, 2020, https://www.cbo.gov/system/files/2020-01/51135-2020-01-economicprojections_0.xlsx.

4 Jeffrey S. Passel and D'Vera Cohn, "Immigration projected to drive growth in U.S. working-age population through at least 2035," *Pew Research Center*, March 8, 2017, https://www.pewresearch.org/fact-tank/2017/03/08/immigration-projected-to-drive-growth-in-u-s-working-age-population-through-at-least-2035/.

5 Robert W. Fairlie, "Open for Business: How Immigrants Are Driving Small Business Creation in the United States," *New American Economy*, August 2012, https://research.newamericaneconomy.org/report/open-for-business-how-immigrants-are-driving-small-business-creation-in-the-united-states-2/.

6 Pia Orrenius and Madeline Zavodny, "An Auctions Approach to Immigration Policy," February 20, 2020, *The Center for Growth and Opportunity at Utah State University*, https://www.thecgo.org/research/an-auctions-approach-to-immigration-policy.

7 Pia Orrenius and Chloe Smith, "Without Immigration, U.S. Economy Will Struggle to Grow," April 2020, *Federal Reserve Bank of Dallas*, https://www.dallasfed.org/research/economics/2020/0409.