Photo by Ludovic Bertron.

An American flag featuring the faces of immigrants on display at Ellis Island.

IMMIGRATION

The Economic Benefits of Immigration

by Giovanni Peri

Immigration has always been a formidable engine of economic and demographic growth for the United States. During the last decades of the 19th century, immigrants contributed substantially, providing labor for the industrialization and electrification of the country. That wave of immigration was ended by the very restrictive immigration laws passed in 1929. While the "Immigration and Nationality Act" of 1965 abolished national quotas and allowed the flow of immigrants to resume, it has only been during the last 30 years that the mobility of the world's people has increased significantly. Young, motivated, and often highly educated people are on the move, and many of them would like to come to the United States. With its 41 million immigrants, the United States is by far the largest magnet for international migrants. Moreover, according to Gallup World Polls, there are about 150 million more people who say that they would migrate to the United States (from every country on the planet) if they had the opportunity.

While immigration flows, if managed efficiently and flexibly, would bring strong opportunities for economic growth, U.S. immigration laws remain outdated, cumbersome, and rather restrictive. These laws have substantially limited immigration for work-related reasons, both among the highly educated (scientists and engineers) and the less educated (construction, agricultural, and personal service workers). The misalignment between restrictive laws and economic incentives has also caused the population of undocumented immigrants to expand rapidly. Attracted by employment, but unable to secure a legal permit, 11 million people work and have set down roots in the United States, despite great uncertainty and little protection.

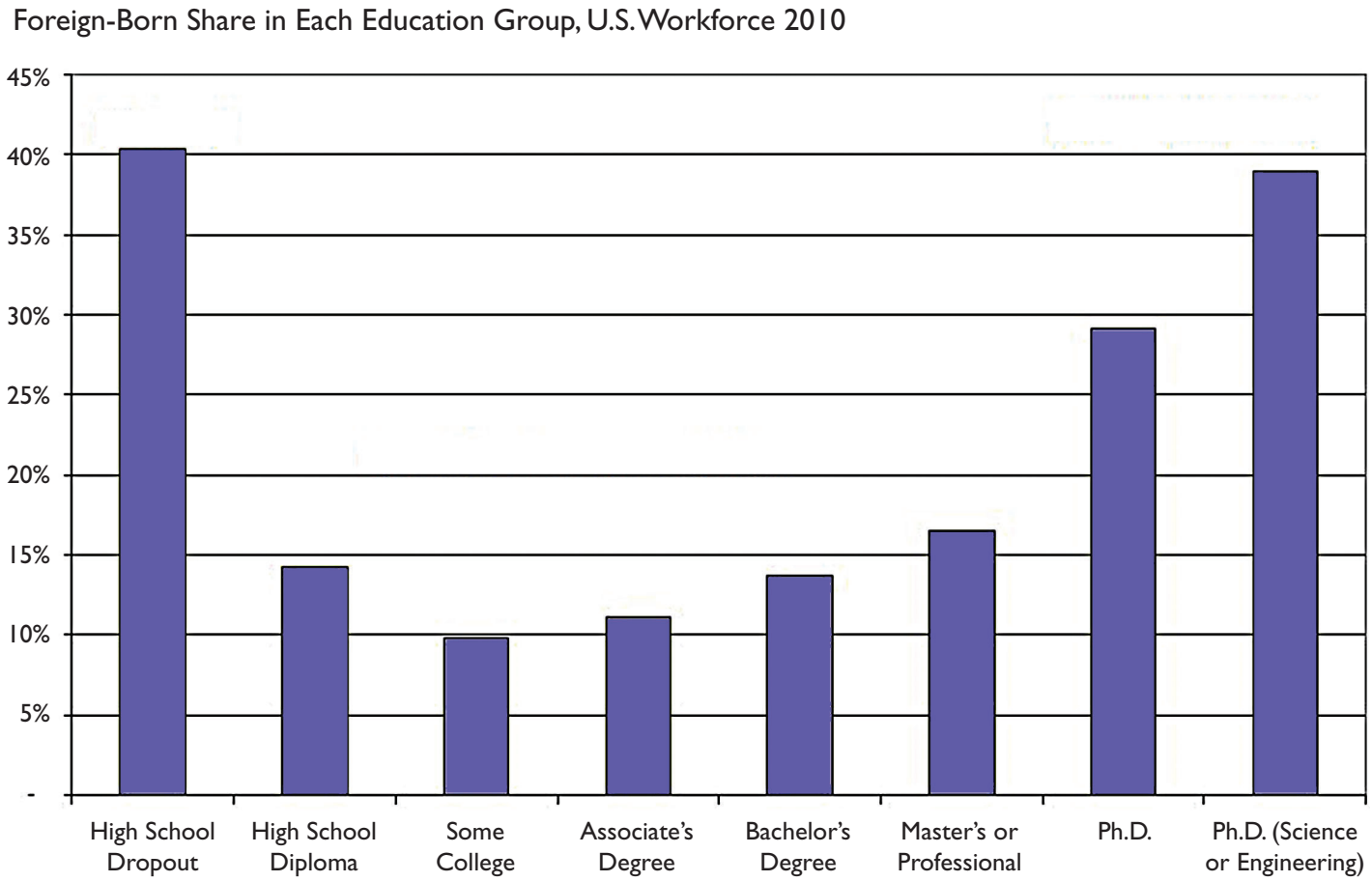

Figure 1: Foreign-born workers tend to cluster in high and low education groups.
(Chart courtesy of Giovanni Peri.)

the tertiary and non-tertiary educated as the most relevant factor for understanding the effects of relative supply on relative wages. Since immigration did not alter the relative supply of these two groups, it is unlikely to have changed their relative wages. At the national level, immigration cannot explain the observed increase in the relative wage of college-educated workers versus high-school graduates observed in the 1980s and 1990s, simply because it did not much affect that relative supply.

Specialization and Technology: Job Upgrades

It is even more interesting to consider the differentiation of skills and productive characteristics between natives and immigrants within each of the two education groups. One tendency among immigrant workers with little schooling is to concentrate predominately in manual jobs. They tend to work as farm laborers, construction workers, roofers, drivers, food preparers, housekeepers, and caregivers for children and the elderly. Similarly educated natives, on the other hand, tend to work in jobs that require more intensive communication and interaction skills; they are cooks, construction supervisors, farm coordinators, and clerks.

In a study I conducted with Chad Sparber ("Task Specialization, Immigration and Wages," American Economic Journal: Applied Economics, 1:3, July, 2009), we show that, due to the limited knowledge of the language, immigrants specialize in manual jobs. As a consequence, firms and sectors that hire immigrants generate higher demand for jobs requiring coordination, communication, and interaction — jobs that are typically staffed by natives, whose language skills are superior. This dynamic specialization according to skills pushes natives to upgrade their jobs to better paid, communication-intensive occupations and protects their wages from competition from immigrants. By taking the manual jobs that natives progressively leave, immigrants push a reorganization of production along specialization lines that may increase the effectiveness and efficiency of labor. A related line of research by Ethan Lewis at Dartmouth shows that, in markets with many immigrant workers, firms adopt techniques that are particularly efficient in the use of less-educated, manual-intensive workers. Hence, they are able to absorb a large number of less-educated manual workers without a loss in productivity and wages.

Mobility of Immigrants

Finally, immigrant workers, both newcomers and those already working in the United States, are more

Photo by Melanie Stetson Freeman/The Christian Science Monitor/Getty Images.

Immigrants graduate from a program that teaches them both the English language and the skills they need to become certified nursing assistants.

increase their hours worked. A study by Patricia Cortes at Boston University shows that the inflow of less-educated immigrants reduced the cost of household production services by almost 10 percent over the period from 1980 to 2000. Moreover, native women increased their work week by about half an hour because of less-expensive home-care services. Low-skilled immigrants thus allowed the productive potential of highly educated women to be used in the labor market by performing some of their household production tasks.

Highly Educated Immigrants: Contribution to Innovation

Highly educated immigrants are a huge asset for the U.S. economy, which attracts scientists and engineers from all over the world. One-quarter of the U.S.-based Nobel laureates of the last 50 years were foreign-born, and highly educated immigrants account for about one-third of U.S. innovation. In 2006, immigrants founded 25 percent of new high-tech companies with more than $1 million in sales, generating income and employment for the whole country. Innovation and technological growth are the engines of economic growth in technologically advanced countries like the United States, where attracting and training new scientists and engineers is key to continued economic success. In a recent paper I wrote with Chad Sparber and Kevin Shih, we show that the inflow of STEM workers driven by H-1B visas during the period 1990-2010 explains up to 30 percent of the productivity growth in U.S. cities. This growth has increased per capita income in the United States by 8 percent over the last 20 years.

Immigration Reforms

In light of these findings, I would like to emphasize that the Senate's reform proposal would constitute a strong economic stimulus for the U.S. economy. First, the bill increases the quota for H-1B (highly skilled) temporary visas, from 65,000 to 110,000 a year, and it allows the quota to grow up to 180,000. If current and past experience is any guide, most H-1B visas will go to scientists and engineers working in fast-growing sectors of the economy. Their innovations, entrepreneurship, and discoveries will be a powerful engine of economic productivity and wage growth.

Second, the reform introduces temporary visas for less-educated workers as well. The initial quota for these W visas is 20,000, and it can be increased up to 200,000 after four years, if demand from employers is sufficiently high. W visas are meant to ensure an adequate workforce in