United States Senate Budget Committee

JEFF SESSIONS | Ranking Member

The Economic Effects Of Mass Immigration

A Chart Book

The great public policy question of whether the United States should continue admitting about 1 million immigrants a year under current law, or triple that number as proposed in the recently passed Senate bill, has now come to the House. This question is momentous not only because our immigration system needs reforming, but primarily because proposals to do so include massive increases in migrant flows in addition to the legalization of millions currently residing in the U.S. illegally. Given the poor state of the economy and the abysmal condition of the federal budget, immigration reform has become the cutting edge in a vigorous debate over our country's economic future and reform of federal programs that drive unsustainable annual deficits.

Significantly increasing the inflow of immigrants would adversely shock an already weak economy, lower average wages, increase unemployment, and decrease each American's share of national output. As the Congressional Budget Office observed in its evaluation of the Senate's effort to increase immigration, the economy might be bigger because it would contain more people, but it would not be stronger. GDP per person would actually decline. Considering the acute, current weakness of labor markets and the slowest economic recovery since the end of World War II, the last thing the U.S. economy needs is an enormous, harmful economic shock.

We focus on key indicators of distress in labor markets. The millions of Americans who are unemployed, underemployed, or who have dropped out of the labor force entirely will be the first to feel the adverse effects of job competition from additional immigrants. We then touch on the desperate condition of working family incomes. And the chart book concludes by reviewing CBO's analysis of the Senate comprehensive reform bill.

Still Have Not Seen Jobs Recovery To 2007 Levels
Six Years After Start Of Recession

"Our economy still has three people looking for every job [opening]." Gene Sperling
President Obama's long-time economic advisor, on CNN, Jan. 5, 2014

Labor market still not recovered: A significant expansion of immigrants would occur at a time of substantial weakness in U.S. labor markets. The current economic recovery has been too slow to produce a healthy growth in employment. The chart below shows that after 72 months, we still have fewer jobs than we had in December of 2007 when the recession began, even though the population has increased each year.[1]

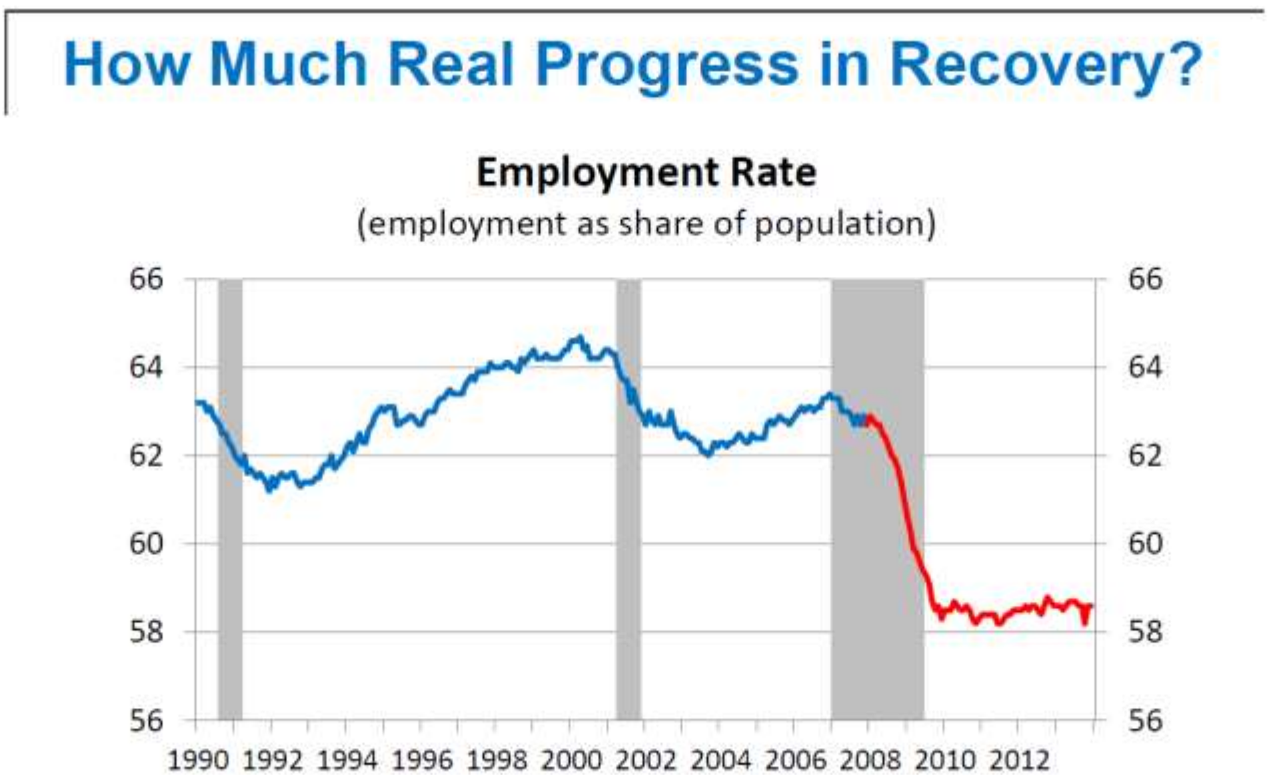
Indeed, the economy has produced 4.7 million jobs since the recovery began in 2009, but 6.8 million people have dropped out of the labor force. This amazing statistic, that dropouts exceed newly employed, is unprecedented in the post-World War II period.

[1] The graphics in this paper are taken from a presentation on current labor market problems given on January 23, 2014, by Dr. Keith Hall, a former commissioner of the Bureau of Labor Statistics and current fellow at the Mercatus Center, from the CBO analysis of S. 744, June 2013; and from original work by Republican staff of the Senate Committee on the Budget.

Employment Has Not Even Begun To Recover

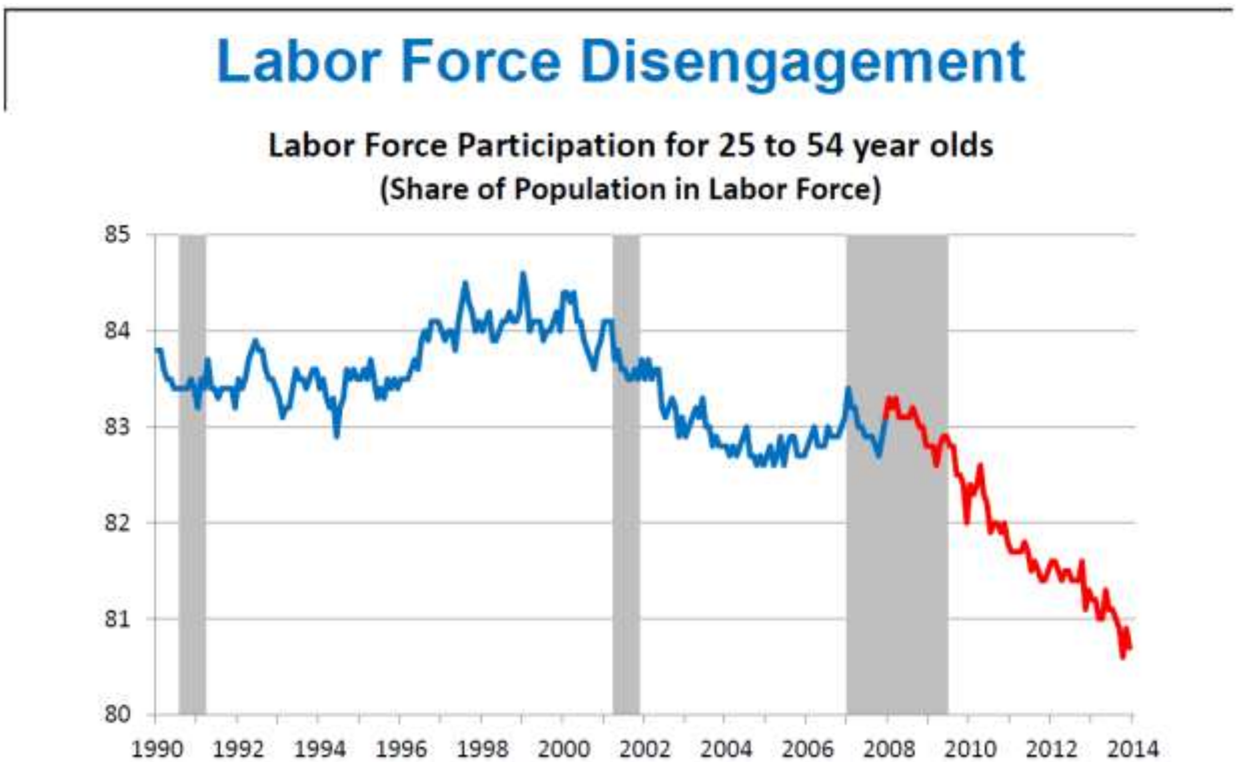
Collapse in percentage of adults working: The percentage of the population that works also has failed to recover from the recession. As of the end of 2013, 58.6 percent of the adult population was employed. This is down from 62.7 percent at the start of the recession, and the percentage has been stuck at about 58.6 since September of 2009. If the same percentage of the population worked today as worked at the start of the recession, we would have 10.1 million more jobs.

In 2007 there were 146 million Americans employed. Today there are 144.6 million. At the same time, the population of those older than 16 years of age has grown by 13.5 million. Far from producing enough jobs to keep up with population growth, the economy is providing few choices for adults other than joblessness or temporary, part-time work.



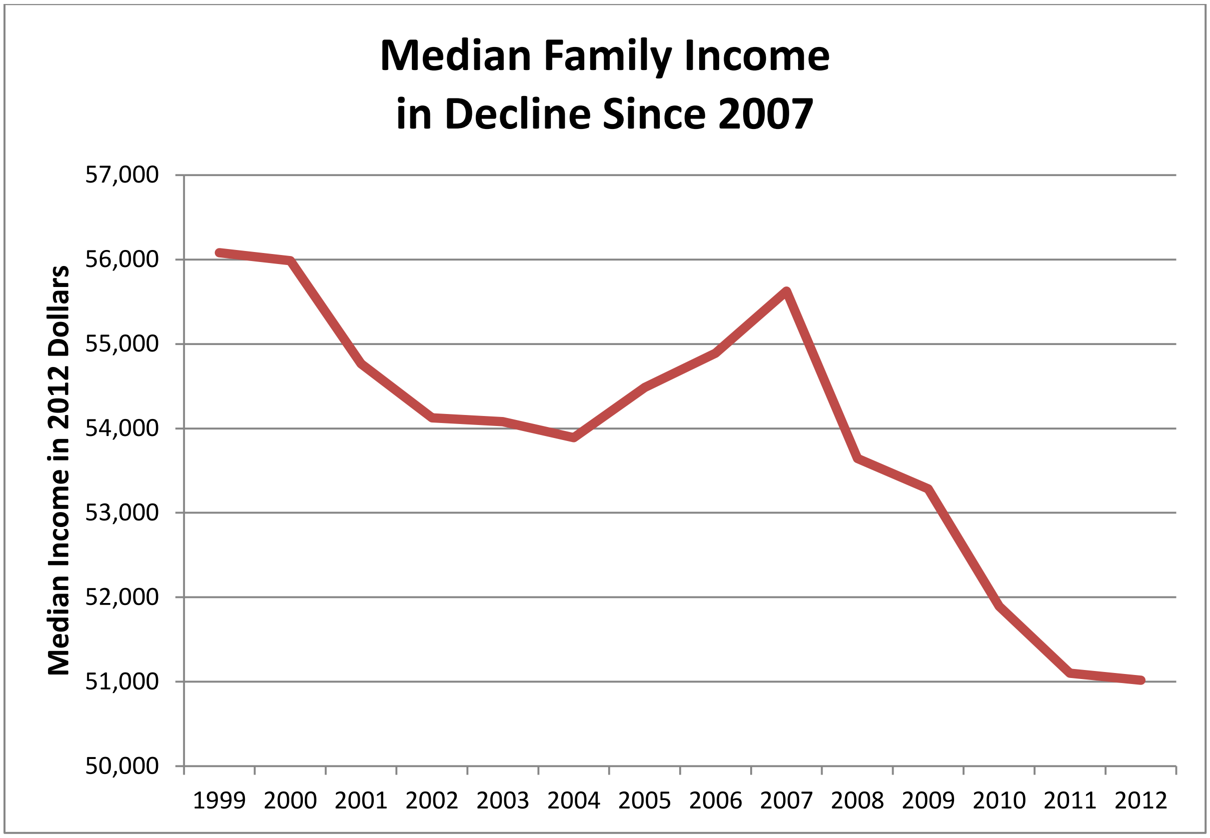
Key Working-Age Population Is Dropping Out

Key labor age group dropping out: These depression-era labor statistics come into even sharper relief when we look at the all-important age group, 24 to 54. The economy depends on this age group for most of its labor. Unfortunately, the labor force participation rate (those working or looking for work) of this age cohort has been in freefall since the middle of the recession.



Working Family Incomes Falling, Not Rising

No growth in working family income: Working America is highly stressed. Jobs just aren't being created at nearly the rate to keep up with population, and millions are simply dropping out. To make matters even worse, the Census Bureau reported in August 2013 that the incomes of working families have been in decline since 2007 (after adjusting for inflation).[2]



[2] U.S. Census Bureau, Income Poverty, and Health Insurance in the United States: 2012 (Washington, DC: 2013). Table A-1.

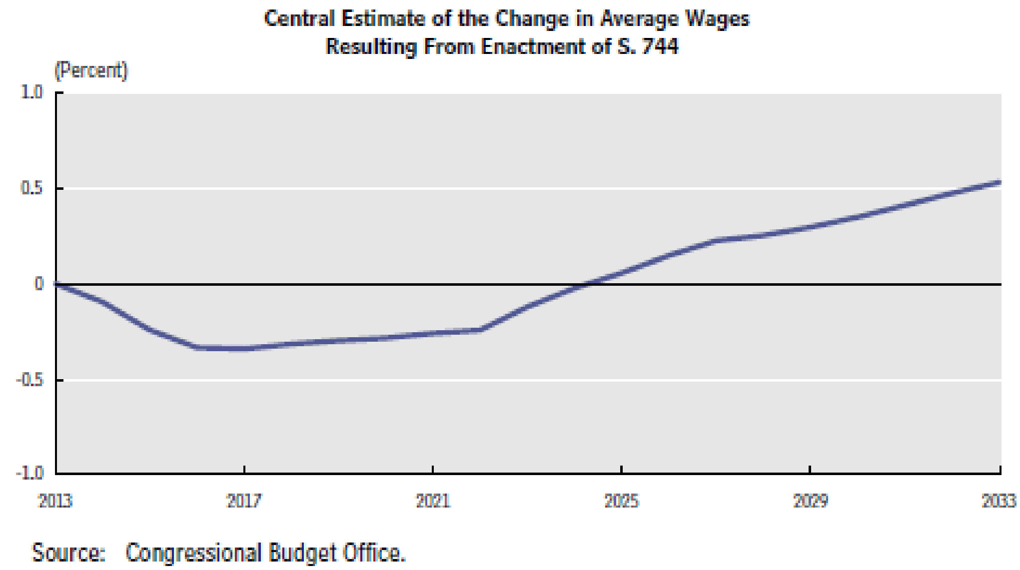
What CBO Says About The Economic Effects Of Large Increases In Immigration

It is against this difficult economic background that immigration reformers want to massively increase the number of work visas by increasing the flow of legal migrants and legalizing those in the country illegally: basically an increase from 10 to 30 million new workers over a 10-year period available to compete for any job. Such an increase would:

- depress wages among low- and high-skilled native-born workers and decrease the average wage across the entire economy,
- raise the national unemployment rate, and
- slow the growth of per capita output.

These are some of the conclusions reached last June by the Congressional Budget Office in its review of S. 744, the Senate's comprehensive immigration bill. CBO used sophisticated economic modeling and a panel of leading academics in estimating the economic effects of the Senate's bill. Let's examine each of these impacts separately.

Depresses wages: CBO concluded based on extensive academic evidence that low-and high-skilled native-born workers would compete at a wage disadvantage with similarly skilled immigrants. CBO wrote: "Based on CBO's reading of that research, a 1 percent increase in the labor force attributable to immigration has tended to lower the relative wages for all workers with less than a high school diploma by roughly 0.3 percent…and to lower the relative wages for workers with at least a college degree by roughly 0.1 percent."[3]



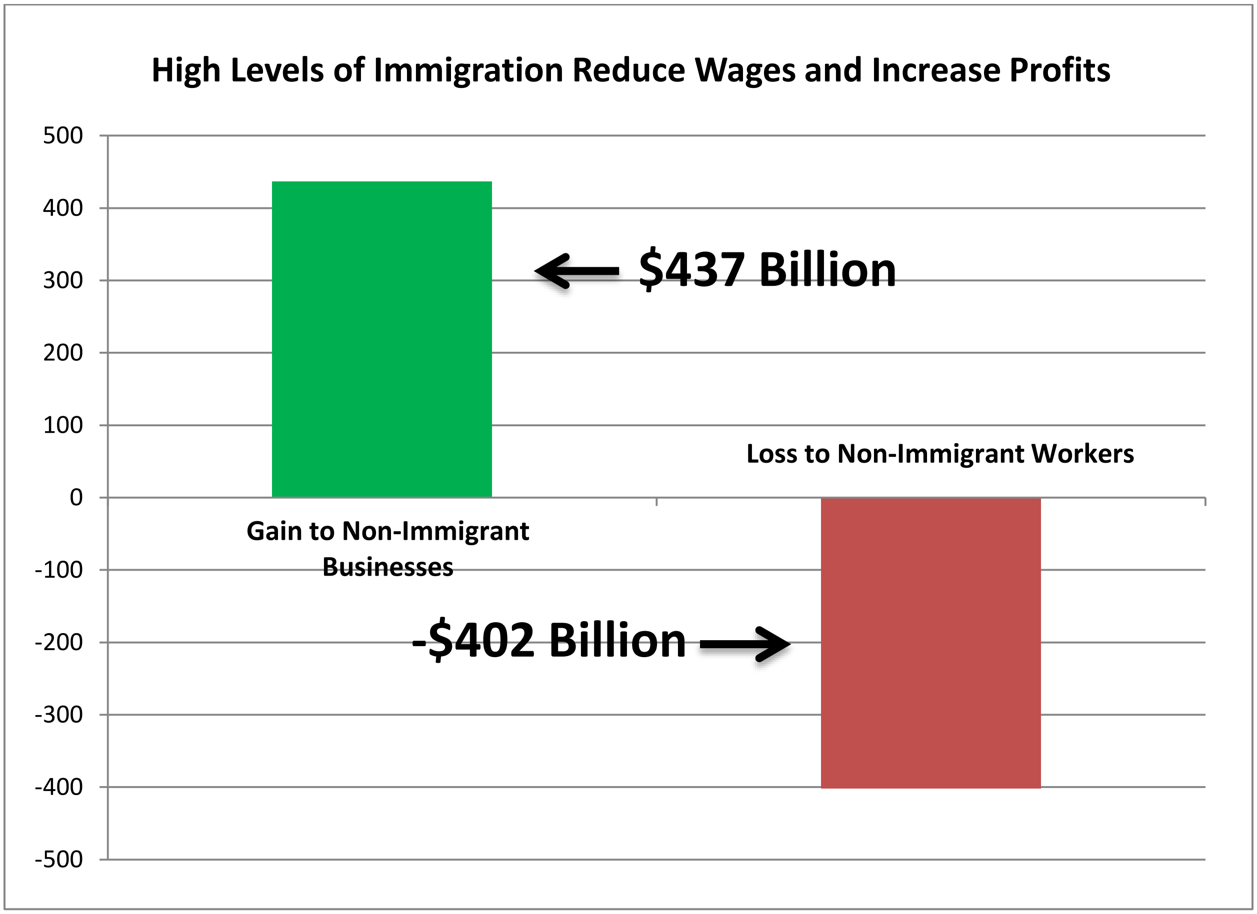
CBO's analysis of S. 744 shows that average wages across the entire economy would be lower for the first 12 years of the policy change. (See graphic above).

[3] CBO, "The Economic Impact of S. 744, the Border Security, Economic Opportunity, and Immigration Modernization Act," (June, 2013), p. 19.

CBO draws heavily from the academic work of George Borjas and other leading labor economists. Dr. Borjas has found a number of very interesting economic implications from increased immigration.

For example:

- Dr. Borjas recently noted that immigration from 1960 through 2012 (the last year for which he had data) has cost native-born workers an average $402 billion in lost wages, while native-owned firms gained $437 billion in income.[4] In other words, he finds the increase for business is almost entirely paid for by the decline in wages earned by non-immigrant workers.



- The impact of increased immigration from 1980-2000 resulted in a 3% decrease in wage for average native workers, and an 8% decrease for high school dropouts. A 10% increase in the size of a skill group (i.e. high school drop-outs) reduces wages of that group by 3-4%.[5]

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[4] George J. Borjas, "Labor Market Impact of Immigration: A Summary of the Evidence," Presentation to the Congressional Budget Office's Macroeconomics Advisory Panel, June 14, 2013.
[5] George J. Borjas and Lawrence F. Katz, "The Evolution of the Mexican-Born Workforce in the United States," National Bureau of Economic Research, Working Paper 11281 (April, 2005).

- "Immigration has its largest negative impact on the wage of native workers who lack a high school diploma, a group that makes up a modest (and, in recent decades, shrinking) share of the workforce. These workers are among the poorest Americans. The children of these workers make up a disproportionate number of the children in poverty: 24.8 percent of all children of the native-born working poor live in households headed by a high school dropout."[6]

Dr. Borjas is not alone by any means in drawing these conclusions from the available data. For example, economists at the Federal Reserve Bank of Atlanta wrote in 2008:

> As a result of the growth of undocumented workers, the annual earnings of the average documented worker in Georgia in 2007 were 2.9 percent ($960) lower than they were in 2000… [A]nnual earnings for the average documented worker in the leisure and hospitality sector in 2007 were 9.1 percent ($1,520) lower than they were in 2000.[7]

Some may not think that losing $960 in earnings is very much, but it is a real blow to a low-income household. That's a monthly loss of $80 dollars, or a week of groceries for a family of four.

CBO also drew on the work of the prominent labor economist David Card, who found that increases in low-skilled immigration reduced wages in similarly skilled native-born populations: "the research implies that immigrant inflows over the 1980s reduced wages and employment rates of low-skilled natives in traditional gateway cities like Miami and Los Angeles by 1-3 percentage points."[8]

Given this academic research, it is little wonder that CBO underscored this wage effect.

<u>Higher Unemployment:</u> However, it is not only lower wages that working Americans will have to bear, but higher unemployment as well.

The rapid increase in the immigrant population, especially in the low-skilled segment of the income distribution, will overwhelm the ability of the economy to produce jobs. Thus, CBO estimates that S. 744 would raise the number of unemployed Americans during the first five years by an annual average of 162,000 and that unemployment would "remain elevated through 2020."

This is a stunning conclusion, especially when compared with what CBO argued in its 2013 Outlook. In their Budget and Economic Outlook of February 2013, CBO projected only 75,000 additional jobs per month during the last five years of the current 10-year budget window, 2019 through 2023.

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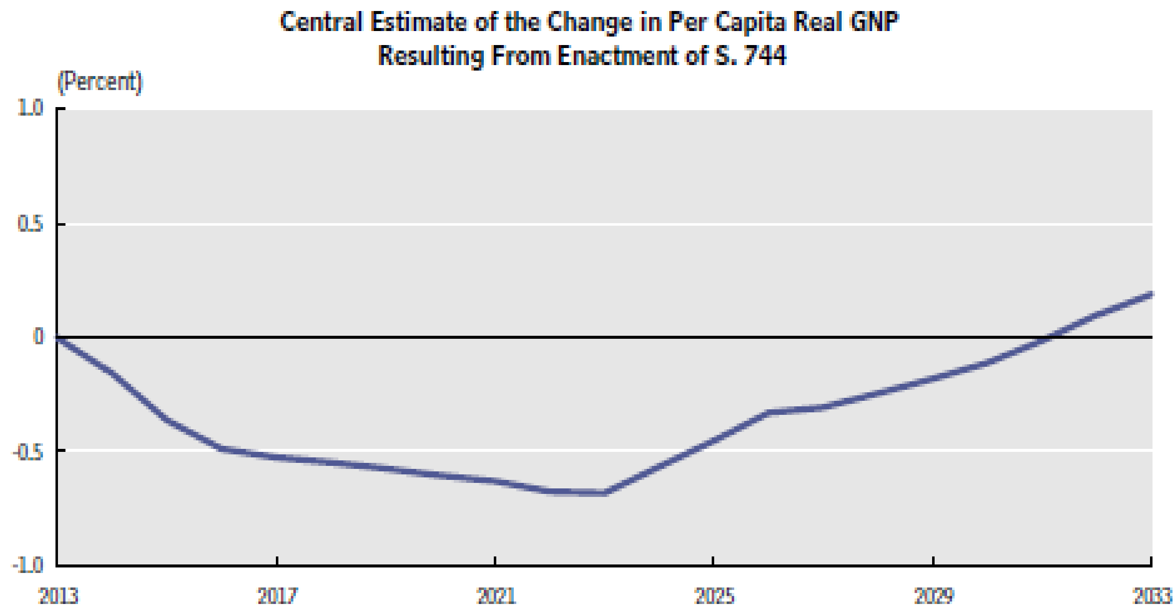
[6] George J. Borjas, "The Labor Demand Curve *Is* Downward Sloping: Reexamining the Impact of Immigration on the Labor Market," National Bureau of Economic Research, Working Paper 9755 (June 2003).
[7] Julie L. Hotchkiss and Myriam Quispe-Agnoli, "The Labor Market Experience and Impact of Undocumented Workers," Federal Reserve Bank of Atlanta Working Paper Series, Working Paper 2008-7c (June, 2008).
[8] David Card, "Immigrant Inflows, Native Outflows, and the Local Market Impacts of Higher Immigration," Journal of Labor Economics, v. 19, no. 1, January 2001.

In other words, the increase in unemployed Americans that CBO projects will equal a full month of average employment gain for the first five years after enactment. At today's job growth rate, that additional unemployment is like losing about a month of job gains: we are currently averaging around 170,000 new jobs per month.

Lower Economic Output: As you might expect, the lower wages and higher unemployment reflect an economy that's not growing fast enough to absorb all of the new workers and keep up with income growth.



While the size of the economy expands because of the larger population, the growth rate is not fast enough to raise wages or lower unemployment. CBO estimates that GNP per capita will fall below baseline (that is, what would happen absent passage of the immigration bill) and stay below baseline until 2030.

This decline in GNP per capita is due to the failure of the economy to grow fast enough to keep up with immigration-driven population growth and the fact that the vast majority of the projected new workers will be low-skilled.