Value Added
How Immigration Fuels the U.S. Economy

By Walter A. Ewing, PhD

Immigration is a valuable economic resource for the United States. At first, this argument might seem counterintuitive. The conventional wisdom has it that, at a time of economic malaise and high unemployment, immigrants (the foreign-born) are simply forcing more native-born workers out of their jobs and into the ranks of the unemployed. However, the conventional wisdom is wrong. Immigrants are not the cause of unemployment among native-born workers. In fact, immigrant workers, consumers, and entrepreneurs create jobs and give a small boost to the wages of native-born workers. The contributions of highly skilled immigrants in particular are essential to growth and innovation in U.S. science and engineering. And, as tens of millions of baby boomers leave the labor force and retire over the coming decades, the contributions of immigrant workers and taxpayers will become increasingly critical to the economic and fiscal health of the nation.

There is No Correlation between Immigration and Unemployment
If immigrants took jobs away from large numbers of native-born workers, one would expect to find high unemployment rates in those parts of the country with the largest numbers of immigrants—especially immigrants who have come to the United States recently, are more likely to be unauthorized, and are more willing to work for lower wages than native-born workers. However, that is not the case. Empirical research has demonstrated repeatedly that there is no correlation between unemployment and recent immigration.

In 2008, there was little apparent relationship between recent immigration and unemployment rates at the regional, state, or county level (Rob Paral & Associates 2009, 4–6). Recent immigrants accounted for a higher share of the population in counties with the highest unemployment rates. But recent immigrants accounted for a higher share of the population (4.6 percent) in counties with the lowest unemployment rates (Rob Paral & Associates 2009, 6). The highest unemployment rates were found in counties located in manufacturing centers and rural areas, which tend to have relatively few recent immigrants. Recent immigrants usually go where the jobs are: metropolitan and non-manufacturing counties where unemployment rates are lower (Rob Paral & Associates 2009, 7–8).

Immigrants and Native-Born Workers Are Usually in Different Job Markets
As the lack of correlation between immigration and unemployment suggests, most immigrants are not competing with most native-born workers for the same jobs. This is because immigrants and native-born workers tend to have different levels of education, work in different occupations, specialize in different tasks, and live in different places. In other words they complement each other in the labor force more often than they compete.

A 2010 report from the Congressional Budget Office (CBO) breaks down the significant differences between immigrants and native-born workers. For instance, the report estimates that nearly one-third (30 percent) of native-born workers age 25 and older had some college education short of a bachelor’s degree in 2009, compared to only 17 percent of foreign-born workers. Among foreign-born workers, more than one-quarter (27 percent) lacked a high-school diploma, compared to only 6 percent of native-born workers (CBO 2010, 7).

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Immigrants and native-born workers also tend to live in different places. The CBO estimated that 62.5 percent of foreign-born workers lived in just six states as of 2009: California, New York, Florida, Texas, New Jersey, and Illinois. In contrast, 66.2 percent of native-born workers lived in the other 44 states (CBO 2010, 5). Even within the six high-immigration states, immigrants still differ from native-born workers in terms of education, occupation, and specific skill sets. In other words, there is not a lot of overlap between the jobs that immigrants fill and those that most native-born workers fill.

Immigrants and native-born workers usually specialize in different tasks, with native-born workers taking higher-paid jobs that require better English-language skills than many immigrant workers possess (Peri 2010).

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**Immigration Gives a Small Wage Boost to the Majority of Native-born Workers**

Immigration provides a slight wage boost for native-born workers in two ways. First, because immigrants and natives tend to have different levels of education, work in different occupations, and possess different skills, the jobs they perform are frequently interdependent and complementary. This increases the productivity of natives, which increases their wages. Second, the addition of immigrant workers to the labor force stimulates investment as new restaurants and stores open, new homes are built, etc. This increases the demand for labor, which exerts upward pressure on wages (Peri 2006, 1).

A 2010 report from the Economic Policy Institute estimated that, from 1994 to 2007, immigration increased the wages of native-born workers by 0.4 percent. The amount of the wage gain varied slightly by the education level of the worker. College graduates got a boost of 0.4 percent; workers with some college 0.7 percent; high-school graduates 0.3 percent; and workers without a high-school diploma 0.3 percent (Shierholz 2010, 12). Similarly, a 2008 study estimated that, from 1990 to 2006, immigration increased the wages of native-born workers by 0.6 percent. College graduates experienced an increase of 0.5 percent, workers with some college 0.9 percent, high-school graduates 0.4 percent, and workers without a high-school diploma 0.3 percent (Ottaviano and Peri 2008, 58).

Moreover, even if they work in the same occupation or industry—or the exact same business—immigrants and natives possess (Peri 2010).

**Immigrants Create Jobs as Consumers and Entrepreneurs**

Far from “stealing” jobs, immigrants actually create jobs in several ways. Immigrant workers spend their wages at U.S. businesses—buying food, clothes, appliances, cars, etc.—which sustains the jobs of the workers employed by those businesses (Shierholz 2010, 22). Moreover, businesses respond to the presence of new workers and consumers by investing in new restaurants, stores, and production facilities. The result is more jobs for more workers (Greenstone and Looney 2010, 5). In addition, many immigrants create jobs through their own entrepreneurship. According to a report from the Kauffman Foundation, “immigrants were more than twice as likely to start businesses each month than were the native-born in 2010” (Fairlie 2011, 2). Not all of these businesses hired workers, but even businesses without employees sustain jobs through the orders they place with suppliers and vendors.

**Foreign-Born Scientists and Engineers Fuel U.S. Innovation and Job Creation**

The entrepreneurship—and inventiveness—of highly skilled immigrants in particular is invaluable to the U.S. economy. This is perhaps most apparent in U.S. science and engineering. A December 2008 study released by the Harvard Business School found that immigrants account for nearly half of all scientists and engineers in the United States who have a doctorate, and they accounted for 67 percent of the increase in the U.S. science and engineering workforce between 1995 and 2006 (Kerr and Lincoln 2008, 1). The study singled out the H-1B visa program for highly skilled foreign professionals, arguing that the program “has played an important role in U.S. innovation patterns” over the past 15 years. This is evidenced by the fact that the number of inventions, as measured by patents, has increased when H-1B caps are higher due to “the direct contributions of immigrant inventors” (Kerr and Lincoln 2008, 30). Likewise, a report from the Brookings...
In 2011, the first of the baby boomers—Americans born between 1946 and 1964—turned 65 years old (Jacobsen et al. 2011, 2). There are 77 million baby boomers, accounting for one quarter of the population (Toossi 2009, 38), and their eventual retirement will have an enormous impact on the U.S. economy. Although many baby boomers will continue to work well past retirement age, this will not offset the number who do retire, and the growth of the U.S. labor force will slow significantly (Toossi 2009, 30). Social Security and Medicare will be called upon to serve a rapidly growing number of older Americans, leaving U.S. taxpayers hard pressed to fund those programs with their tax dollars (Myers 2007a). Demand will grow for new workers to take the place of those who retire from the labor force (Myers 2007a). And demand will rise for both highly skilled and less-skilled healthcare workers to look after the growing ranks of elderly Americans (Lacey and Wright 2009, 83). Under these circumstances, immigrants—and the children of immigrants—will play increasingly important roles within the U.S. economy as taxpayers, workers, and healthcare providers.

Although the United States is not aging as rapidly as some countries (most notably, Japan), it is still aging fast. The elderly share of the U.S. population (those age 65 and older) grew from 8.3 percent in 1950 to 12.4 percent in 2000 (UN 2008). It is projected to reach 19.3 percent by 2030 (after the last of the baby boomers have turned 65), and then inch up to 20.2 percent by 2050 (Vincent and Velkoff 2010, 10). In sheer numbers, the elderly population of the United States will more than double in size in only four decades, rising from 40.2 million in 2010 to 88.5 million in 2050 (Vincent and Velkoff 2010, 1). The highest rate of increase will be among the “oldest of the old”: those 85 and older, who tend to require the most healthcare services. This group will grow from 5.8 million in 2010, to 8.7 million in 2030, to 19 million in 2050—or one-fifth of the elderly population (Vincent and Velkoff 2010, 3).

The U.S. population would be aging even more rapidly if not for the demographic impact of immigration. Immigrants tend to be younger than native-born Americans—and to have higher rates of labor-force participation—so they mitigate the impact of aging among the native-born population and workforce. As a 2010 report from the U.S. Census Bureau points out, “the country’s aging is slowed somewhat by immigration of younger people” (Vincent and Velkoff 2010, 3). Demographer Dowell Myers estimates that current levels of immigration will temper the aging of the U.S. population substantially over the next two decades, slowing the increase in the “old-age dependency ratio”—the number of elderly per 1,000 working-age individuals—by more than one-quarter (Myers 2007b, 5).

However, current levels of immigration are not sufficient to offset the retirement of the baby boomers. Immigration notwithstanding, the elderly population is projected to grow far more quickly than the working-age population (those ages 18–64). The number of working-age adults for every elderly person in the United States declined from 13.6 in 1900 to 7.5 in 1950 to 5.0 in 2000. It will drop to only 2.8 by 2050 (Jacobsen et al. 2011, 12). This represents an enormous fiscal and economic burden upon taxpayers and workers (Jacobsen et al. 2011, 13).

## Immigration and the Future of the U.S. Economy

The best available research points to an inescapable conclusion: Immigrants add value to the U.S. economy in myriad ways. A 2007 report from the White House Council of Economic Advisers concludes that, because immigrants increase the size of the total labor force,
complement the native-born workforce, and stimulate capital investment by adding workers to the labor pool. Immigration increases U.S. GDP by roughly $37 billion each year (White House Council of Economic Advisers 2007, 3). Peri (2010) argues that “immigrants expand the U.S. economy’s productive capacity, stimulate investment, and promote specialization that in the long run boosts productivity,” and “there is no evidence that these effects take place at the expense of jobs for workers born in the United States.” Moreover, as the impending retirement of the baby boomers illustrates so dramatically, the economic contributions of immigrants will become more and more critical to U.S. economic growth over the coming decades.

Unfortunately, U.S. immigration laws remain stubbornly oblivious to economic and demographic reality. Temporary and permanent avenues of immigration to the United States, whether through the family-based system or the employment-based system, are unresponsive to the forces of supply and demand (Immigration Policy Center 2009, 7–11). That is why 11 million unauthorized immigrants now live in the country (Passel and Cohn 2011, 1). The U.S. government would be wise to take a much more purposeful and strategic approach to immigration. The United States needs an immigration system that legally admits immigrants who can fuel U.S. innovation and entrepreneurship, take the place of retiring baby boomers in the labor force, help care for the growing ranks of elderly Americans, and shore up the Social Security and Medicare systems with their tax dollars.

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Endnote


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