

On Immigration Policy and the Labor Market



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Aim of Talk



- Consider immigration policy and the job market from a broad perspective
- Briefly consider US situation
- Comments on the UK approach
- What are the lessons for the US?

How does immigration fit with broader goals?



- **Helping the immigrants or natives? Include only natives or focus the immigrant welfare as well?**
- **If policy is only about natives, what policies are appropriate?**
 - Will ignore issues unrelated to the job market, such as cultural issues, desire for immigrant families to help their relatives, the role of immigrants in helping deal with aging issues
- **Focus here is on the job market**

Does immigration help?



- Idea that immigrants or trade raise unemployment is patently false; it relies on the view that the number of jobs is fixed and conflicts with the evidence
- But leaves open the question of how immigrants might improve outcomes for native workers
- Several economic perspectives
 - Immigrants add to the scale of the economy
 - Immigrants may be substitutes/complements
 - Immigrants can fill jobs in shortage occupations/some may have unique talents than cannot be replicated

More on Economic Perspectives



- **Scale issue**—if immigrants came in the same proportion as the overall economy, we would have simply be expanding the scale
 - ▣ Question becomes—are there economies of scale?
 - Paying taxes for public goods vs. crowding
 - Evidence shows overall benefit for native workers
- **Substitutes or complements?** If immigrants increase the share of low-skill workers, they may substitute for native low-skill workers and complement high-skill workers—this makes native low-skill workers less valuable and high-skill workers more valuable
 - ▣ Evidence varies on the importance of this issue
 - ▣ Impact competition may depend on specific occupations

Filling temporary shortages



- **Temporary shortages can be a bottleneck to the economy, reducing output or generating inflation**
 - Can occur because of lack of labor supply in a specific occupation limits the ability of firms to expand—once this constraint is removed by allowing immigrant flows, firms are able to resume their expansions
 - Key questions—how long would the shortage persist without immigration? Can future potential shortages be filled with native workers by more tailored training?
 - Workers in the shortage occupation may still resent competition—their wages would balloon but might make their firms less competitive in world markets

US Situation in Brief



- Substantial share of legal immigrants come through family unification—recently led to increases in low-skill workers
- Two-thirds of inflows of legal permanent residents in 2007 were based on family preferences and another 13% were refugees or asylees, with 15% in employment preferences requiring different talent thresholds
- The allotment for temporary workers is lower often leads to a political debate—recently as low as 65,000
- Significant shares of legal and undocumented immigrant workers have low levels of education
- Recent immigrants are a high share of dropouts & BAs

UK Report Very Well Done



- Examines the economic arguments and empirical evidence about impacts
- Ways of identifying shortage generally make sense in terms of existing data
- Occupational shortages usually more specific
- Cannot escape important policy issues
 - What is the time dimension of the shortage?
 - Over what period should employers be able to fill their positions from internal sources?
 - How much training and increased wages would be required to eliminate the shortage?
 - Should shortages guide only temporary permits?
 - How linked to a specific job should immigrants be?
 - How can policymakers know about disincentive effects?

Case Study of Analyzing Shortages



- **US H1B Debate on IT Shortages**
- **Late 1990s I was asked to write about and later testify about IT shortages in the US**
- **Lesson is instructive in several ways**
- **We examined employment change, wage changes, unemployment rates in selected occupations in as much detail as we could**
- **Even during the run-up to the high tech boom, we saw little evidence in the data, yet firms insisted a shortage was clear**

Why the different perspectives?



- IT firms were young and not used to modern recruiting strategies—concerning the time to fill a vacancy, the need to have flexibility, the expectation of training, and wage demands
- IT firms may have been really talking about the very elite positions—the top 300-400 in the world; people who are priority workers, with exceptional abilities who qualify for permanent residency
- IT workers wanted very specialized workers—e.g., people with 5 years of experience on software only developed 5 years ago; also wanted workers tied to the firm, as with H1B
- No one predicted the bust but even then it was clear that the shortage claims were quite overdone for normal IT workers
- Earlier shortage of professors of math/scientists led to large inflows of foreign workers and subsequent weakness in this market

Lessons for Policy



- **Separate the issue of long-term immigration policies from short-term policies to relieve shortages**
- **Long term, recruit a balance of workers from all skill groups so no group faces brunt of the competition**
- **Since current policies are tilted toward the bottom, allow more skilled workers to become permanent**
- **Clearly, shortages can arise in the short term but it is possible to use a market test—require employers to pay an absolute or proportional fee that could fund training linked to the shortage field**
- **Where shortages are among firms seeking the very top talent, bring in workers under a permanent visa program**