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IMPACT OF IMMIGRATION ON THE DISTRIBUTION OF AMERICAN WELL-BEING

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Immigration into the United States has grown rapidly since the 1970s. Changes in the net immigration rate, in the age distribution and skills of immigrants, and in the relation between immigration and fertility have had noticeable effects on the age distribution and skill mix of the population. In the short run, increases in immigration boost the number of workers, raise aggregate earnings subject to the Social Security payroll tax, and reduce the ratio of elderly to non-elderly in the population. Because immigrants typically have less educational attainment and earn lower wages than native workers, the growth of average earnings in the economy is slower than it would have been with a lower immigration rate.

This paper focuses on two related questions: How has immigration since 1980 affected the income and earnings distributions? How has the changed composition of the population affected the relative income position of the aged? The paper briefly describes the recent history of immigration into the United States. It then analyzes household survey responses collected between 1994 and 2008 to assess the impact of U.S. immigration after 1979. Because the Census survey files contain information on respondents' immigration status, immigrants' year of entry into the United States, and the immigration status of respondents' parents, it is possible to identify immigrants who arrived after 1979 and the offspring of such immigrants.

Post-1979 immigrants and their children are younger than other U.S. residents, and working-age immigrants who have entered since 1979 typically have less education than other workers who are the same age. Even making adjustments for their relative youth and for their poor educational credentials, recent immigrants earn lower wages than other U.S. workers. The wage gap is particularly large in the case of male immigrants, immigrants who arrived within the past 10 years, and immigrants with Hispanic backgrounds. In the mid-1990s, post-1979 immigrants and their working children earned about 25 percent less than native workers and immigrant workers who arrived before 1980. By 2007 the wage gap was only 18 percent. Nonetheless, the increasing importance of post-1979 immigrants in the workforce has meant their wages have a growing weight in determining the overall wage. The proportion of wage earners consisting of post-1979 immigrants and their children more than doubled between 1993 and 2007, increasing from 6 percent to 13 percent of the workers with wage and salary earnings. Post-1979 immigrants and their children reduced the average annual earnings of wage and salary workers by 1.4 percent in 1993 and 2.3 percent in 2007. (These estimates ignore any spillover effects of immigrants' labor supply on the wages of natives and immigrants who arrived before 1980.)

Immigration's impact on average pay affects Social Security benefit payments, because the wage indexing factors used to adjust a worker's past earnings and the bend points in the PIA formula are affected by the

level and rate of change of economy-wide average wages. For workers attaining age 62 in 2007, the basic Social Security benefit would have been about 1.8 percent higher if the average wage had risen at the rate observed among native workers and immigrants who entered the U.S. before 1980 rather than among all resident workers, including those who entered after 1979. Thus, immigration has not only helped to improve Social Security finances through its impact on the size of the taxable earnings base and tax revenues, it has also reduced the rate of growth in monthly benefit payments among recent retirees.

It is possible, of course, that immigration has spillover effects on the wages earned by native workers and immigrants who entered in earlier years. Economists disagree in their assessments of the impact of immigration on the level and distribution of native workers' wages. The conventional view is that immigrants' entry into the workforce should reduce the wages of native workers who are close substitutes for immigrants. If low-skill immigrants are close substitutes for low-skill native workers, an influx of relatively low-skill immigrants should reduce the wages of low-skill natives. Immigrants are also somewhat over-represented in the very high-skill segment of the labor market. They are greatly under-represented in the middle of the skill distribution. I simulate the effects of lower immigration on the average wages of native and immigrant workers using wage-response estimates proposed by economists who have opposing views on the effects of immigrants on the wages of the native workers. While the estimates produce different approximations of how the wage effects of immigration are divided between natives and immigrants, both sets of estimates agree that the average wage of resident workers will change by a sizeable amount only if the U.S. capital stock is relatively fixed in the face of large shifts in the size of the immigrant population. This seems unlikely.

In the conclusion of the paper I estimate the impact of post-1979 immigration on average and median U.S. household income (adjusted for household size). My estimates suggest that average personal income in 1993 was 2.0 percent lower than would have been the case if immigration had ceased after 1979. This effect has grown over time. In 2007 the reduction in average size-adjusted income was about 3.1 percent. The cumulative impact of post-1979 immigration continues to grow, mainly because the percentage of U.S. residents who are post-1979 immigrants or the children of post-1979 immigrants has continued rise. The gap between the personal incomes of immigrants and nonimmigrants, though shrinking, continues to be wide. In 2007 the mean size-adjusted income of post-1979 immigrants and their children was 23 percent lower than that of other U.S. residents.

How would U.S. incomes differ if there were a smaller number of immigrants or if different criteria were applied in the admission of immigrants? I consider three policies: a 20 percent reduction in immigration after 1979; a 50 percent reduction in immigration from Mexico; and a 50 percent reduction in the admission of adults with less than a high school education. Even though the second and third of these policies would have had a smaller impact on the number of admitted immigrants, they would have caused larger effects on average and median U.S. incomes and produced bigger changes in the relative income of young and old. Policies that reduce the number of admitted low-skill immigrants tend to increase average income by a larger percentage amount than across-the-board reductions in immigrant flows. At the same time, policies that reduce unskilled immigration tend to boost average incomes by proportionately more in the working-age population than in the aged population. On the whole, U.S. immigration policy since the early 1980s has tended to depress the growth of income among working-age households while having relatively little impact on incomes in households headed by a person past 65.

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