



# **IMMIGRATION REFORM AND INFLATIONARY PRESSURES**



September 2023

# Immigration Reform and Inflationary Pressures

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The United States economy stands in a precarious position with a persistent, tight labor market driving upward wage pressures that are fueling inflation and leading the Federal Reserve to hike interest rates. Annual inflation has cooled from the highs of almost 9% last summer. However, to achieve an inflation target of 2%, which would help convince the Federal Reserve to pause and start cutting interest rates, there may need to be a loosening of the labor-market. This is a difficult task to achieve given the current shortages and aging workforce. The US economy will continue to struggle with these and must look to immigration to aid in reducing labor-shortages and inflation. Increasing immigration of both high and low-skilled workers in the United States can boost productivity and innovation, fill job vacancies and reduce inflationary pressure, and improve overall economic growth.

## Where immigration stands in the United States

The Covid Pandemic coupled with President Trump's restrictive administrative actions on immigration from 2019 to 2021 left the labor force 1.6 million workers smaller than it would have been following pre-pandemic trends.<sup>i</sup> Since then, the cap on refugees has been lifted and both temporary Visas and permanent residency Green Card issuances have returned to pre-pandemic levels. Even with immigration levels returning to pre-pandemic levels, there is a declining foreign-born worker population in the US with no current signs of making up for the workers lost during this period.<sup>ii</sup>

## As immigrant workers increase, inflationary pressures decrease

Country-wide labor shortages began to ease slightly in immigrant-driven industries with immigration levels returning to pre-Covid levels



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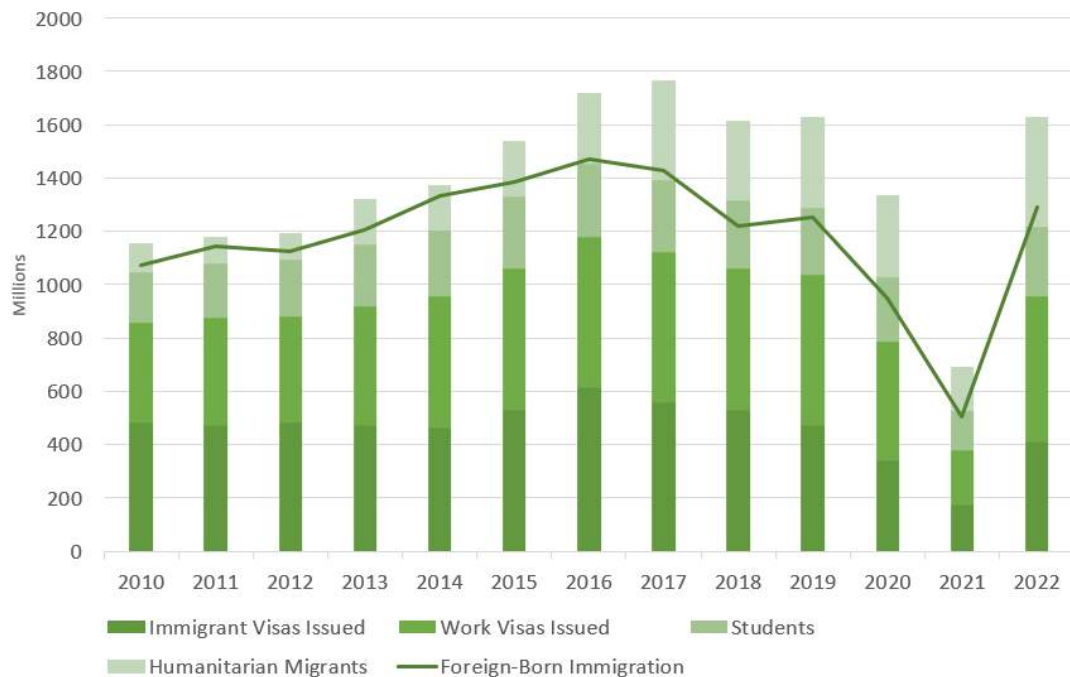


Figure 1: Foreign-born Immigration Estimates and Select Administrative Data: 2010-2022<sup>iii</sup>

over 2022. As normalized immigration helped alleviate labor shortages in immigrant-heavy industries, this coincided with a decline in inflation following its peak in June. This inflation easing cannot be attributed solely to increased immigration, yet the United States economy and workforce will remain vulnerable to tight labor markets if the immigration system does not allow for growing immigration rates. Researchers at George Mason University analyzed these labor shortages in immigrant-driven industries during the pandemic and found significant wage spikes in many industries.<sup>iv</sup> The correlation between wage spikes and the number of new residents was strongest in construction, leisure, and hospitality industries, where immigrants account for more than 20% of the workforce. This increase in wages in immigrant-heavy industries demonstrates the significant upward pressure that reduced immigrant labor has on inflationary pressures. While immigration will not be the sole answer for the Fed hitting its goal of 2% inflation, it is certainly a promising place to start.

### Increased Immigration leads to greater productivity and innovation

Many studies have challenged the notion that low-skill immigrants hurt the US economy. One such study compares the outcomes of “winning” and “losing” US companies in a nationwide randomized lottery that rewards the firms with H-2B (Low-Skill) work Visas.<sup>v</sup> There are roughly 100,000 to 130,000 H-2B Visas distributed each year in industries including groundskeeping, hospitality, forestry, seafood processing, manufacturing, and construction. This strict cap on the number of these visas that can be issued each year lies far below the annual demand for US corporations. The authors analyzed the results of the winning firms who received H-2B Visa allocations to those who did not. The study found that the “losing” firms were forced to reduce the hiring of foreign workers by 56% and ended the year with an 18% decrease in production. Furthermore, there was no evidence that losing



the foreign worker lottery led to firms increasing jobs to domestic residents. In fact, losing firms that were forced to reduce foreign workers by 50% decreased native hires from between 1-5%.<sup>vi</sup> Losing firms unable to hire more foreign workers suffered decreases in production but still showed little interest in filling available positions. For such industries, there seems to be no viable replacement to foreign workers. As a result, increasing annual H-2B Visas is likely to increase economic productivity without negatively impacting the labor market for domestic workers.

The desire for increased labor through immigration has been called for by people in influential positions in immigrant-reliant industries. Sean Kennedy, The National Restaurant Association's EVP of public affairs, recently stated that immigration reform is a top three priority for the restaurant industry. When asked about the issue, Kennedy stated, "We are the industry of immigrants. It's the back of the house. It's the front of the house. It's the owners. It's the dishwashers".<sup>vii</sup> The \$900 Billion Dollar restaurant industry reported worker shortages in 62% of companies and cited the negative impact the shortage had on their bottom line.<sup>viii</sup> The agricultural industry currently sits in a similar position, as well, with worker shortages having severe adverse impacts on business. The American Farm Bureau, along with 350 agricultural groups wrote the following in a letter to the Senate in December of 2022 urging them to pass an agricultural reform bill to increase foreign farm workers, "The farm labor crisis is hindering production and contributing to food price inflation. We must address this workforce crisis threatening farms across the United States so our producers can continue to feed, clothe, and fuel our nation."<sup>ix</sup> Unfortunately, their plea for the increased labor force fell upon deaf ears in the Senate where the bill failed to pass.

The long-term health of agriculture and restaurant industries should be of the utmost importance to both investors and the United States government. Given the pivotal roles that both play in the nation's economy, their long-term health holds significant implications for investors. The restaurant industry, deeply dependent on immigrant contributions, has a direct impact on job creation and consumer spending. Addressing labor shortages through immigration reform can support its growth and stability. Similarly, the agricultural sector underpins several other industries as it is responsible for supplying food and raw materials. Changes in agriculture prices affect the overall cost of living and other industries' profitability. A secure and sustainable agricultural workforce is essential for ensuring secure food pricing and stable market conditions.

A seemingly less contentious debate is that around the immigration of high-skilled workers. Immigrants complement the domestic worker and positively impact them at the higher-skilled end of the labor markets. Native workers interacting with co-workers of varying cultures, skills, and thought processes leads to cultural enrichment that drives innovation. Additionally, the work of highly educated immigrants speaks for itself. A surprising 45% of highly educated immigrants work in the STEM (Science, Technology, Engineering, and Mathematics) fields.<sup>x</sup> 50% of Total Factor productivity (TFP) in the United States has been STEM related in recent decades with STEM employment increasing from 2.9% in 1990 to 3.7% in 2010, and high-skilled immigrants are responsible for 80% of this growth. It can be inferred that college-educated/high-skilled immigrants made up roughly 40% of aggregate productivity growth from 1990-2010.<sup>xi</sup> A closer look at STEM jobs and the impact of immigrants reveals just how important they are



to US companies. STEM job openings in the United States are projected to outnumber qualified candidates by 6 million in 2030.<sup>xii</sup> In order for US STEM companies to remain globally competitive, it is crucial that they can recruit and maintain foreign talent to continue to innovate and stay ahead of the curve. While the United States attracts many top students from around the world to study STEM in college, the students are then forced to compete against one another for a limited number of H-1B visas to continue working in the US. As a result of the United States' current policy, STEM talent is being cultivated domestically while reaping only a small percentage of the possible innovation and output. Open AI CEO Sam Altman expressed his concerns with the current state of H-1B Visa distribution to technology companies' ability to remain competitive. According to Altman, "The fact that many of the most talented people in the world want to be here is a hard-won gift; embracing them is the key to keeping it that way. [It is] Hard to get this back if we lose it".<sup>xiii</sup>

Altman's claim that immigrants are the key to innovation and success in STEM in America has the historical performance to back it up. Immigrants have their fingerprints on the American tech industry from the very beginning starting with major contributions to the first Silicon Valley Microchip created by Israeli immigrant Dov Frohman-Bentchkowsky in the 1970s.<sup>xiv</sup> Since then, immigrants have founded or been a key part of 55% of start-ups valued above \$1 billion dollars.<sup>xv</sup>

As investors, it is important to understand the critical importance of the long-term well-being of tech stocks and their substantial impact on the market. The information technology and communication services sectors have been responsible for the majority of US market returns YTD,<sup>xvi</sup> concentrated particularly on the

performance of the Magnificent 7 (Alphabet, Amazon, Apple, Microsoft, Meta, Nvidia, and Tesla). The innovative tech industry and their business models have in large part relied on high-skill immigrants. Economic growth will continue to rely on the technology companies in the United States moving forward. However, for the tech sector to stay competitive in the long run, H-1B Visas must be increased to stimulate innovation and growth.

### **Immigrants' entrepreneurial pursuits benefit the economy**

Immigrants entering the United States have a proven track record of entrepreneurial spirit that has increased the size of the US economy. From top to bottom, the United States economy benefits from the contribution of immigrant work. Among Fortune 500 companies, an impressive 219 have immigrant roots with 102 being directly founded by immigrants and 117 founded by the children of immigrants. Collectively, these companies employ more than 14.8 million people as of 2022.<sup>xvii</sup> The effects of increased immigrant business pursuits are palpable for the average adult, as well. A Kauffman Foundation report on census data in 2021 found that 0.32% of domestic adults were likely to start their own business in any-given month while 0.58% of immigrants started their own businesses.<sup>xviii</sup> Immigrants are therefore creating jobs at higher rates than domestic workers and providing goods and services that help stimulate the economy. Increasing the number of start-up visas for entrepreneurial immigrants can assure increased economic output in the United States.

### **Wide-scale Immigration will reduce job vacancies and heal the working population.**

From 2019-2021 the US working population decreased dramatically. In addition to the





decrease in immigration, a significant number of Baby Boomers retired during the Coronavirus pandemic and many more reduced their total number of hours worked each week. This issue of a decreased labor force was highlighted by Fed Chairman Jerome Powell in a speech in November 2022 where he postured that there were still millions of “missing workers”.<sup>xxix</sup> Covid also directly reduced the working population by causing the death of approximately 400,000 working-age individuals while the effects of long-Covid could be preventing even more adults from returning to the workforce.<sup>xxx</sup>

The outlook for filling increased job vacancies remains bleak given the rising age of the United States workforce. Without increased immigration for the next two decades, the working-age population of the United States would remain relatively flat, as projected by the authors of a George Mason research paper.<sup>xxxi</sup>

Fortunately, 79% of immigrants arriving in the US since 2010 have been working aged (18-64) compared to the 61% of the general American population.<sup>xxii</sup> It is also true that despite being disproportionately affected by Covid, immigrants have returned to the workforce more quickly than their domestic counterparts.<sup>xxiii</sup> Immigrants added to the working population at greater rates than domestic workers, and are helping thwart the United States’ upward trending old-age dependency ratio. The dependency ratio is calculated by dividing the population of people aged 65 plus by the working age population (18-64-year-olds). The ratio gives insight into the future ability of economically active people to support the economically dependent population. A rising dependency ratio is often cited as one of the main long-term concerns of the United States economy. The dependency ratio stands at 27.5% for American-born workers, but only 5.8% for immigrants arriving

since 2010.<sup>xxiv</sup> Immigrants coming into the United States would be paying more into the system by way of taxes and won’t reap the benefits such as healthcare, social security, and other forms of support for years to come. Not only will immigrants not draw benefits away from domestic workers, but they will also be paying into them at higher rates for the foreseeable future. A reduced dependency ratio can lessen fiscal burdens on social welfare systems, increase economic productivity, and increase inter-generational equity.

### **What changes should be made to US immigration policies?**

The US will need to enact policy changes to reap the benefits of increased immigration. Canada is touted as having one of the most progressive immigration processes and can serve as an example for the United States. In 2022, Canadian immigration rose to 437,180 documented arrivals marking an all-time high.<sup>xxv</sup> Immigrants who come to Canada receive permanent Visas through one of four processes: economic pathways (62%), family sponsorship (20%), protected persons and refugees (15%), humanitarian and other reasons (3%).<sup>xxvi</sup> The Canadian immigration process through economic pathways using a points-based system could be replicated by the United States to fuel economic growth by increasing skilled workers. The IRCC (Immigration, Refugee, and Citizenship Canada) outlines the four different pathways for application for economic pathways based on a varying set of qualifying factors such as work experience, skills, and employment status.<sup>xxvii</sup>

After verifying their eligibility for one of the four pathways, applicants submit a profile to a management system called “Express Entry” and are placed into a pool of applicants. Express Entry then gives each applicant a score



determined by their profile and ranks each submission relative to the other applicants. The higher an applicant scores, the more likely they are to be extended permanent residency in Canada.<sup>xxxix</sup> This process allows for the systematic entry of high-skill workers into the Canadian workforce based on their merits and prospective ability to generate economic production. Emulating Canada's progressive immigration process through economic pathways would enable the United States to increase the 206,002 H-1B (Skilled worker Visas) they distributed in 2022.<sup>xxx</sup> The increased skilled worker population would foster innovation, economic competitiveness, and overall economic growth.

Canada has already begun to reap the benefits of their liberal immigration system while the United States falls behind. US-based tech companies have begun to move northwards to Canada where they are able to recruit foreign talent more quickly and at higher rates. Companies such as Amazon, Apple, Google, Microsoft, and Meta have all expanded their Canadian operations taking advantage of these immigration policies. This migration has made Toronto one of the fastest-growing tech hubs in North America and has seen at least 61 Canadian-founded tech firms on a path to earn \$1 Billion in yearly revenue.<sup>xxxi</sup> Furthermore, the University of Berkley estimates that for each high-skill immigrant worker taken in, 2.5 more jobs are created.<sup>xxxii</sup> For American-based companies, the answer to attracting the foreign talent and remaining competitive is simple: expand business to Canada. As major American businesses continue to offshore, the economy will suffer until immigration regulations allow for the same foreign talent recruitment that is possible in Canada.

The United States Citizenship and Immigration Services (USCIS) took a step in the right

direction announcing they would increase available H-2B (low-skill) Visas for 2023 by 64,700.<sup>xxxiii</sup> These additional Visas are reserved for industries that will suffer "irreparable harm" if denied employment of immigrants with H-2B Visas. While this increase in visas will help patch the most severe labor shortages, it is not a long-term solution. The USCIS should adopt a proactive approach by implementing a substantial increase in H-2B Visas available annually, instead of relying on retroactive measures to solve current labor shortages. Establishing increased H-2B Visas serves as a forward-looking approach that alleviates pressures on struggling industries and sets the foundation for a stronger labor force in the future.

## Conclusion

Increasing immigration in the United States can address labor shortages and lead to greater productivity and innovation while reducing inflationary pressures. Both high-skill and low-skill immigrant workers positively contribute to the labor force driving economic growth and sustainability. Immigrants can help to alleviate the strain on social welfare systems by decreasing the dependency ratio and giving the economy a brighter, healthier future. While immigration has become a highly politicized topic, it is important to separate political rhetoric from the reality of the significant positive impact immigration can have on the economy. Increased immigration will not solve every issue with the current US economy, but it would be an important step in the right direction. It is in the best interest of investors seeking stable market conditions for the future to advocate for increased immigration.



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