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Global CIO Outlook

Welcome, Immigrants. The U.S. Really Needs You



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Recessions usually occur because the economy hits constraints, causing prices to rise and leading the Federal Reserve to raise interest rates. Today the dominant constraint in the U.S. economy is the size of the labor pool. To sustain continued growth, increasing corporate profits, and rising living standards, while maintaining relative price stability, policymakers must approach labor differently. First among the priorities for achieving long-term prosperity is a rational immigration policy.

Labor shortages are already appearing in key parts of the economy, with about half of small businesses reporting few or no qualified applicants for job openings. For the first time since the government began tracking job openings in 2000, available jobs exceed available workers. This isn't just among highly skilled workers. For instance, homebuilders report a shortage of workers, especially in areas like framing and drywall, which is crimping the supply of new housing and helping to drive up home prices, reducing affordability.

The growth rate of the American labor force is decelerating sharply. U.S. population growth has slowed, reflecting declining fertility rates and reduced net immigration inflows. The population also is aging. In 1960, 38.6 percent of the population was below 20, while 23.3 percent was 50 or older. Today 25.1 percent is under 20, and 35.3 percent is over 50. By 2040, just 23 percent of the population will be younger than 20, and 38.9 percent will be over 50. The domestic labor pool is projected to increase by an anemic 0.5 percent per year over the next 20 years, compared to growth rates of more than 2.5 percent in the 1970s.

How can the U.S. invest in building a strong labor force? Job training and education play an important role in enhancing worker productivity and output, and programs need to be designed to incentivize our aging baby boomers to remain in or return to the workforce. But one of the most important components is immigration.

Immigrants and their children have contributed more than half of the growth of the working-age population over the past two decades. These new arrivals aren't just an untapped source of labor but add to America's economic dynamism through high rates of entrepreneurialism and technological innovation. If the United States is to succeed in the 21st century and retain its global hegemony, then rational immigration and deportation policies are critical elements to its success. A dynamic policy that increases the pool of working immigrants could raise annual U.S. growth by one percentage point or more for decades to come.

This isn't to suggest throwing open the borders. Border security could always be tighter. Instead, the situation requires a pragmatic, economically driven immigration approach that makes it easier for immigrants to come in legally, resolves the status of undocumented workers and Dreamers, and establishes appropriate policies and controls around future immigration.

Immigration policy must recognize that the demand for workers will fluctuate based on economic conditions, so it must be organized to be responsive to the needs of those industries or regions that demonstrate persistent labor shortages. In these instances, there should be employment-driven strategies and sponsorship programs that can match new immigrants with the economic activities and regions that need them.

We need workers across the skills spectrum, but the ability to select from the best and brightest, particularly from those already studying at U.S. universities, could enhance U.S. productivity growth, as well. Foreign students who attend American universities for undergraduate or graduate studies and have employers ready to sponsor them should automatically be granted multi-year employment-based visas after routine background checks. Highly skilled workers already qualify for H-1B visas, but there aren't enough of them. In April, the demand for these visas was so strong that the Congressionally mandated application cap of 65,000 for the year was reached in just five days. This cap should be either significantly increased or eliminated.

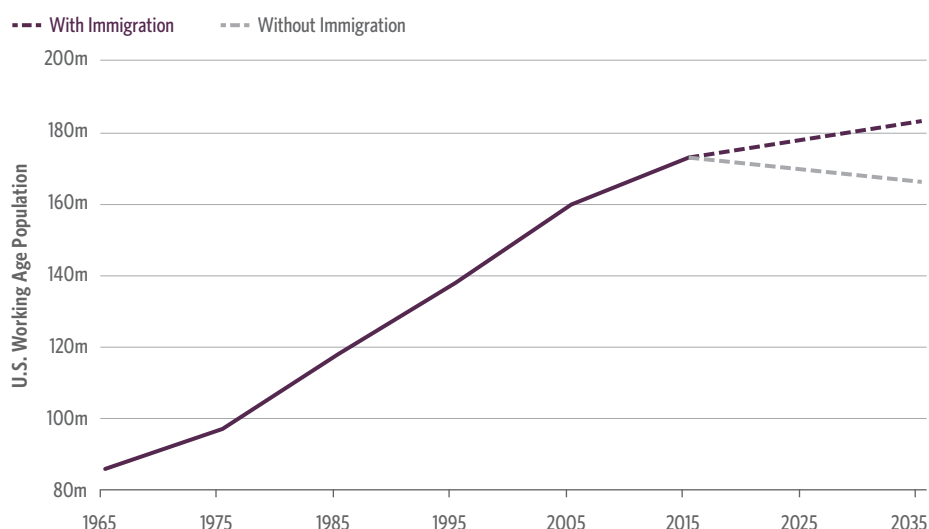
Not only do we need to find ways to attract new immigrants. We must also work to avoid deportation for those undocumented resident immigrants who are law-abiding, contributing members of our economy. Rather than outright deportation, pathways can be established for undocumented workers to earn legal status, which would draw them out of the shadows and make them productive, tax-paying participants in our prosperity.

Let me be clear: Coming into this country illegally is a crime, and conditions for avoiding deportation and earning legal status should include a penalty. For example, workers who come to this country illegally, in exchange for receiving permanent legal status, should have to pay taxes and contribute to Social Security and Medicare, just like working citizens. However, they could be restricted from receiving many

social benefits provided to taxpaying U.S. citizens, and shouldn't be eligible for Social Security and Medicare benefits for a much longer period, perhaps until age 75.

When economically focused, rational immigration policy is combined with productivity gains from recent tax reform, efficiency gains from improved infrastructure, and native population growth, real growth in America could reach a sustained rate of 5 percent or more. This will ensure that the U.S. expansion continues, while averting the needless boom-bust cycles of expansion and recession. With smart and creative ideas to grow the U.S. workforce, the full effects of current economic policies could flourish uninterrupted for generations to come.

The United States Needs Immigrants for Growth and Productivity



Source: Pew Research Center. Guggenheim Investments. Actual data as of 2015. Pew Research Center estimates for 1965-2015 based on adjusted census data; Pew Research Center projections for 2015-2035.

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