

SOCIAL SECURITY ADVISORY BOARD

ISSUE BRIEF #1:

The Impact of Immigration on Social Security and the National Economy

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On September 7, 2005 the Social Security Advisory Board convened two panels of demographers, economists and immigration experts to examine the long-range impact of immigration on Social Security and the national economy. The Forum was divided into two sessions, one on measurement and projection, and the other on managing global migration. At each session, papers were presented to participants by the assembled experts, followed by a discussion of each paper among participants.

The first session, *Projecting Long-Term Immigration*, focused on current trends and projection methods and the importance of accurate projections for formulating sound economic and social policy. Presenters in this session included Dr. Richard Jackson from the Center for Strategic and International Studies, and Dr. Jeffrey Passel from the Pew Hispanic Trust. Discussants for this session included Dr. Barry Edmonston from Portland State University and Dr. John Wilmoth from the United Nations Population Division. The second session, *Managing Global Migration*, focused on “managing” international migration and policies to assure an adequate labor supply for the future. Presenters in this session included Dr. Demetrios Papademetriou from the Migration Policy Institute and Dr. Michael Teitelbaum from the Alfred P. Sloan Foundation. Discussants for this session included Dr. Wolfgang Lutz from the International Institute for Applied Systems Analysis and Dr. Susan Martin from the Institute for the Study of International Migration.

Board member Martha Keys moderated the Forum.

The challenges facing the Social Security program and the economy as a whole will grow over the coming decades as the Baby Boom generation enters retirement and as improvements in human longevity contribute to an inevitable and significant increase in the proportion of Americans over the age of 65.

Preparing for this future requires those interested in shaping future public policy to gain a greater understanding of the long-term changes in our population and economy—including trends in fertility, mortality, productivity, employment and wage growth. As life spans increase and fertility rates remain steady at or just below replacement rate, a large and growing part of those changes will be shaped by the volume and composition of immigrants coming to this country and their descendants. In fact this change has already begun. The President’s Council of Economic Advisors recently reported that from 1996 to 2003, nearly 60 percent of net employment growth, and 50 percent of the growth of the working age population was due to recent immigrants.

For each session of the Forum, the Advisory Board posed a set of broad questions that formed the context under which immigration was considered and discussed by the participants. The questions posed for the *Projecting Long-Term Immigration* session focused on the following: How can we best improve our methods for projecting future immigration and how can we best develop the assumptions on which our projection models are based? How do we address key policy issues despite our uncertainty over long-range projections? How will immigration affect the size and composition of our population and the ratio of workers to retirees? What effect will immigration have on long-term productivity and employment? Will it raise or lower wage growth? What effect

will immigration have on the finances of local, state, and national governments? And how will the long-term trends affect the long-term financial situation of the Social Security trust funds, if at all?

The questions posed for the Managing Global Migration session were focused on the following themes: Why do people migrate? Which social, economic, and political forces are most likely to explain future global patterns of migration? Can the U.S. effectively manage the amount and character of immigration to this country? How important will competition for the most economically advantageous migrants be? What role will the aging of *developed* societies and the related need to provide retirement security for their workers play in the global patterns of migration? What role will demographic and economic change in the *developing* world play in migration patterns? What role, if any, does a stable system of retirement security play in attracting an adequate workforce?

It was not expected that the discussions at the Forum would answer all of these questions but the larger inquiry into the implications of immigration on the long-term trends in the economy and Social Security financing were guided by them.

While recognizing the importance of immigration to our future patterns of economic and population growth, the Social Security Advisory Board does not view immigration as a panacea – or free lunch – for saving Social Security. The Social Security Administration’s (SSA) Office of the Chief Actuary estimates that an increase in legal immigration of about a quarter of a million would reduce the 75-year actuarial deficit of the Social Security program by about 5 percent under the current set of assumptions.

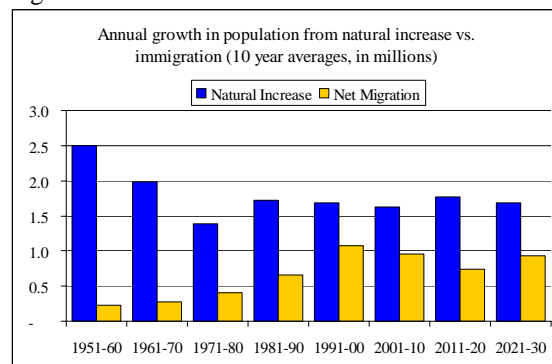
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This is not a trivial amount but neither is it a solution to the long-term solvency of the program. It does remind us that immigration will change both the structure of the population and the workings of the economy. This is the context under which the Advisory Board has pursued its work on immigration. Below is a summary of what the Board heard at its September 7th Forum.

The Impact of Immigration on Population and National Age Structure

Immigration is an increasingly important determinant of population growth as the rate of natural increase declines due to relatively low birth rates (although U.S. births rates are still significantly higher than Canada, Europe and Japan). [see Figure 1] Immigrants also represent an increasing share of the labor force. The mix of skills, education and productivity in the economy is increasingly determined by the skills, education and productivity among the foreign-born share of the labor force and their offspring.

Figure 1:



Source: Census Bureau (various years); Wilmoth (2003); R. Jackson (2005)

Current estimates of immigration to the U.S. by 2050 encompass a huge range. The Census Bureau estimates of flows into the country in 2050 range from a low of 166,000 per year to 2.8 million with a middle estimate of 980,000. The Bureau of the Census’ estimates of total U.S. population in 2050 range from 353 million under low immigration assumptions to 498 million under high immigration assumptions (with a midpoint of 404 million).

The 2005 Economic Report of the President estimates that over the last 10 years as much as 58 percent of employment growth in the U.S. and 51 percent of growth in the working age population has been due to new immigrants.

The U.S. (like most of the developed world) is on a trajectory of significant aging due to the Baby Boom cohort entering retirement years and steady increases in the life expectancy at birth and at age 65. Since most immigrants to the U.S. tend to enter the U.S. as young adults rather than as children, they do not lower the average age of the population by very much. As they age along with the native-born population, they tend to raise the average age of the nation. However, they also tend to have slightly higher fertility rates than non-immigrant

families. The age at entry of immigrants and their fertility rates will have some mitigating effect on the overall aging of the population, although it is likely to be very slight.

The Magnitude of Immigration Effects on Social Security Finances

Legal immigrants contribute taxes to the Social Security Trust Funds but are likely to eventually become beneficiaries of the system as well (although some may return to their country of origin before eligibility). Among illegal immigrants, SSA actuaries currently assume that about half actually pay social security taxes although they are very unlikely to collect benefits.

The number of immigrants entering the country affects the size of the working age population, the size of the labor force, the number of workers in OASDI covered employment, and thus the size and growth rate of GDP. In addition the children of immigrants will continue to affect the size and growth rate of GDP and the ratio of workers to beneficiaries well into the future. A 2004 memo from the Office of the Chief Actuary pointed out that the change in the actuarial balance of the Social Security Trust Fund from an increase in immigration of about 250,000 per year would be about 0.1 percent of taxable payroll, or about 5 percent of the currently projected actuarial deficit. In the 2005 Social Security Trustees Report, the range of estimates in the long-term actuarial balance of the Trust Funds between the low (672,500) and high (1,300,000) immigration assumptions amounts to a swing of .44 percent of taxable payroll (from -2.11 to -1.67).

Current Trends in Immigration

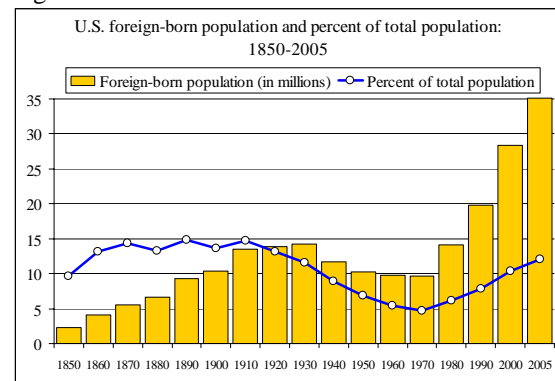
Jeffrey Passel described recent trends in immigration to the U.S. The number of immigrants coming to the U.S. has been steadily increasing since the late 1960s and is now at an all-time high, with about 15 million arriving during the last decade for a total foreign born population of about 35 million. [see Figure 2] A similar number are expected to enter the U.S. during the present decade. The share of the population that is foreign born is approximately 12 percent, approaching the all-time high of nearly 15 percent near the start of the 20th century.

Almost two-thirds of recent legal immigrants are admitted to the U.S. either because they are immediate relatives or fall under other family sponsored preferences. Only about 15 percent are based on employment preferences. The annual

arrival of unauthorized or illegal immigrants has exceeded the number of legal arrivals since about 1995. About 30 percent of the 35 million foreign born persons in the U.S. are unauthorized migrants. Most illegal immigrants, almost 80 percent, have arrived since 1990.

Foreign born residents of the U.S. are predominantly from Mexico (32 percent), the rest of Latin America (23 percent) and Asia (25 percent). While the sources of U.S. immigration have changed dramatically since the first half of the 20th century, it is not unprecedented to have as large a share coming from just one country (as had previously occurred with Irish and German immigrants). Almost 60 percent of illegal immigrants are from Mexico with 25 percent from the rest of Latin America.

Figure 2:



Source: U.S. Census Bureau; Passel (2005)

Immigrants tend to have high attachment to the labor force. Many families are of “mixed status” with a combination of authorized and unauthorized members, often with children who are citizens. Immigrants tend to occupy both extremes of the skill/education distribution, many with less than average education and a smaller but significant percentage with higher than average education levels.

Dr. Passel projects that future immigration will play a dominant role in the growth of the U.S. labor force over the next half century. Successive cohorts will have higher levels of education (a smaller percent will have very low levels). And the aged dependency ratio will be slightly lower than without any immigration, but not nearly enough to offset the large increase due to the aging of the Baby Boom and increase in life spans.

U.S. Immigration in the Context of Migration Throughout the World

Demetrios Papademetriou warned that data on just who is and is not a migrant are not consistent across countries, and this makes it difficult to estimate with certainty the extent of migration throughout the globe. For example, individuals are counted as immigrants in France only until they are granted citizenship. By contrast, the U.S. keeps track of all “foreign-born” residents. In addition, a large share of persons in the countries comprising the former Soviet Union, found themselves reclassified as immigrants merely as a consequence of the redefinition of national borders following the dissolution of the USSR.

According to demographer Michael Teitelbaum, the UN estimates that about 3 percent of the world population lives outside their country of birth. While this is a small fraction, it amounts to roughly 175 million to 200 million persons. They are unevenly distributed; 9 percent of developed countries’ population is foreign-born compared to only 1.5 percent of developing countries.

The U.S. has the largest stock of foreign-born persons but the share of the population (12 percent) is similar to other large developed countries such as France (10 percent), Russia (9 percent) and Germany (9 percent); but not very high compared to many very small countries.

Projecting Immigration into the Future

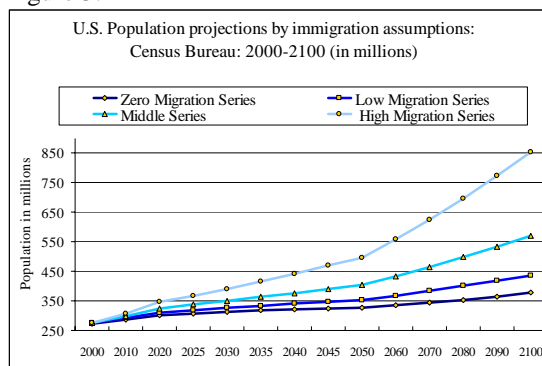
It is the obligation of the Social Security Trustees to project the finances of the Social Security Trust Funds over the next 75 years. The assumptions and methods used to make such long-range assumptions are complex and open to debate. At present the Trustees intermediate assumption is that immigration to the U.S. will stay constant over the long term comprised of a level of legal immigration consistent with current immigration law with the addition of a constant number of “other” immigrants, i.e., non-legal immigrants and other categories. Since 1999 the Advisory Board has empanelled at four year intervals a group of outside experts to review the Trustees’ assumptions and review the projection methods of the Social Security actuaries. The 2003 Technical Panel on Assumptions and Methods recommended changes to both the assumptions and methods for projecting future levels of immigration.

Richard Jackson addressed several significant issues related to projecting immigration over the long-term. His main contention was that

projections should be based on a definable methodology rather than on ad-hoc assumptions. He discussed incorporating into the projections explanations of what drives immigration based on social science theory and suggested that approach could yield better estimates than trend-based projections. Prevalent social science explanations for what motivates migration include inter-country wage differentials, the process of globalization, intra-family economic planning and the existence of social networks and institutions which facilitate and reinforce migration patterns.

Michael Teitelbaum argued that theories about why people migrate are not as predictive as we might like. Even massive demographic trends such as the “Baby Boom” and the “Baby Bust” are very hard to predict over the long term. In addition, government policies toward migration have perhaps as important an effect on the size and direction of migration patterns as do economic, social and demographic forces. The future direction of public policy and the political, social or economic conditions that give rise to them are inherently unpredictable. To Teitelbaum, the problem is that the long-term future is largely unknowable and thus setting policy over the long term will require choices made in spite of that uncertainty rather than through some effort to clarify it.

Figure 3:



Source: U.S. Census Bureau (2000)

There was fairly widespread agreement among the Forum participants that methods that characterize the full range of possible future estimates in probabilistic terms are more informative than presenting high, low and medium variants of projected outcomes. [see Figure 3]

John Wilmoth discussed the changes to the Trustee’s current immigration projections recommended by the 2003 Technical Panel, of which he was a member. Offering a critique of incorporating theories of migration into projection methodology, Dr. Wilmoth argued that explaining

why people migrate, even if correct, cannot tell you the size of immigration flows which is the crucial variable for long-term projections. He further argued that limiting projections to what the current immigration law allowed made little sense especially over the long-term. For example, although there are numerical limits on legal immigration, family members of immigrants can, in many cases, qualify for legal immigration well in excess of those numeric limits. Not only is the “legal” limit hard to predict, but illegal immigration could fluctuate widely and may currently exceed flows of legal immigrants.

The 2003 Technical Panel, therefore, recommended using methods that were based on simple rules and that were consistent with historic trends. In accordance with those principles, the Panel recommended the Trustees adopt a method that assumes future immigration to the U.S. will grow proportionately with the overall population rather than at a constant level. Such a change would involve a substantial increase in the intermediate projection of the numbers of future immigrants.

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The Technical Panel also recommended more research on the extent to which immigration affects fertility and mortality rates since there may be secondary, generational effects on these rates that are not sufficiently addressed by the Trustees’ current projection assumptions.

Managing Global Immigration Through Public Policy

According to demographer Michael Teitelbaum, there is overwhelming evidence that immigrant flows are powerfully affected by government policies and the things that governments do. For instance, if the Chinese government were suddenly to authorize passports for every one of its 1.3 billion citizens, we would likely see a substantial shift in the volume and direction of migration in and out of China. In addition, government actions often have unintended consequences. In Europe, for example, the

temporary guest worker program brought about large scale permanent migration.

According to demographer Wolfgang Lutz, Europe and North America dominate today’s world because they have a large accumulation of well-educated human capital. But in the future, we can expect to see rapid increases in human capital accumulation in Asia, particularly in India and China, surpassing that of North America and Europe. India will soon be the world’s most populous country. Moreover, there has been a huge momentum in that country in recent years toward improvements in education. China will have more people of working age by 2015 with secondary and tertiary education than Europe and North America together. This is because China has invested a great deal in education in recent years.

Dr. Lutz also explained that the inevitable aging of the population in developed countries will increase the demand for workers to provide services. Many of these workers will have to be imported from other countries. However, the need for workers is expected to be so great that it may also begin to threaten the “cultural identity” of some nations – especially in Europe. In addition, increased immigration might also raise the concerns of domestic workers about unemployment and foreign competition for jobs.

According to immigration expert Susan Martin, the feminization of migration is another important issue that needs to be on the public policy agenda, most certainly when dealing with policy areas that are affected by the composition of the population. Women have always migrated, but they are doing so increasingly in recent years. In addition, women are now immigrating more frequently as primary wage earners, not just as spouses or daughters following a male migrant. In some countries, for example Indonesia, women comprise about 70 percent of emigrants.

The reasons that women are migrating are equally important. Women tend to migrate into service jobs, like nursing, that support the elderly and children. But nursing is only a sliver of the demand for labor in support of the elderly that is likely to increase as a result of the aging of the population.

Dr. Martin also believes that the transportation revolution has had an extremely important impact on immigration because it is now less expensive to migrate. The communications revolution – the growth of cell phones, Internet, etc. – has broken down some of the psychological barriers to migration. It is now easier to travel long distances and easier to communicate with family left behind.

It is also much easier to remit earnings back to the country of origin.

Dr. Lutz believes that the political traditions and culture of a nation also have a big impact on its immigration policy. For example, in Japan there is very little immigration despite its having high wages and one of the most rapidly aging populations in the world. Japan, instead, attempts to solve its shrinking workforce problems by putting a lot of emphasis on automation – the Japanese would prefer to have robots do the work instead of immigrants. Dr. Lutz asserts that it is possible that we may begin to see Europe head in the same direction.

Dr. Lutz also asserted that employers desire cheap labor, which means that they want a bigger supply of workers and, thus, more immigration. Consumers want local services to be cheap, so their needs are also met by higher immigration. On the other hand, there are the interests of workers – mostly the low-skilled workers – who want higher wages. Workers desire a tighter labor supply and less immigration – or no immigration at all. And in the Europe, there is a third factor – cultural homogeneity and the desire to preserve national identity.

Dr. Lutz added that it would also be worthwhile to take a look at these competing interests by age. Young adults who are looking for jobs probably want less competition. Young families with children probably want cheap services. As workers age, they probably want less competition and do not want to be pushed out of their jobs too early because immigrants will do the same job for lower wages. Retired persons probably want cheaper services again, but they probably also tend to put greater emphasis on cultural homogeneity. There are also different interests by different levels of education – those with higher educations face less competition by immigrants.

Dr. Lutz concluded that these are all very powerful economic and cultural forces that have to be worked out by the political and economic systems. As our population changes – the age profile and education levels – the composition of these interests is likely to change with it and will likely affect the way that immigration policies are formulated. The important thing is to have robust immigration policies. A nation cannot just look at the needs and politics of the day. In order to be prepared for the immigration realities of the future, it has to get policy instruments ready for when they may be needed.

Interaction of Immigration and Social Security in Current Policy

Dr. Martin has asserted that we have a mismatch between our current immigration policies and both the market and social forces at work that determine pressures for migration and mechanisms by which people migrate. Within our legal immigration system, we have very large backlogs and long waiting times. In 2004, there were 1.1 million applicants awaiting admission to the U.S. who were children or siblings of U.S. citizens. There are only 65,000 visas available each year in that category. In addition, there were between 3 million and 5 million pending applications waiting for initial processing in other immigration categories, plus a backlog of over 4,000 pending immigration appeals. People coming in today from most parts of the world applied 15 to 20 years ago. The median age of the principal applicant on admission is 55. This means we keep immigrants out of the U.S. during their most productive, wage earning period of time and admit them when they get close to retirement. This does not make sense, Martin asserted, particularly for programs like Social Security. Martin argues that this practice should either be eliminated or made meaningful in terms of numbers. The long waiting time for spouses and minor children also contributes significantly to illegal immigration.

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In addition, Dr. Martin asserted, we have artificial ceilings on temporary immigration programs. The U.S. Congress is constantly being pressured to raise or lower those ceilings in response to short-term economic and political situations. However, the legislative process for doing so is quite slow and not very responsive to changes in the economy. On top of all of this are bureaucratic inefficiencies in managing the immigration system with administrative waits that can sometimes last three to five years, making the system very unmanageable for many migrants who simply bypass legal channels and immigrate illegally. Many employers happily employ those who bypass the legal system. Martin questioned whether or not it makes much sense to have an

immigration policy that is set in concrete and bears absolutely no relationship whatsoever to the dynamics of migration.

The U.S. Commission on Immigration Reform recommended that immigration limits be set for no more than three to five years at a time and that there be a process for reassessing what the needs are and what the supply and demand factors are. Congress never acted on this recommendation. Martin said that, instead, we have immigration limits set in concrete, often for 20 or 25 years at a time. She believes that we need a much more rational and reasonable system by which to make those decisions about who is admitted to our country.

Another aspect of immigration policy that may have a negative effect on labor force productivity is the ability to keep foreign-born, highly-educated graduates in the country. To address this, the Committee on Prospering in the Global Economy of the 21st Century of the National Academy of

Science recently recommended that “policy-makers should provide a one-year automatic visa extension allowing international students to remain in the U.S. to seek employment if they have received doctorates or the equivalent in science, technology, engineering, mathematics, or other fields of national need, from qualified U.S. institutions. If these students then receive job offers from employers based in the U.S. and pass a security screening test, they should automatically get work permits and expedited residence status. If they cannot obtain employment within one year, their visas should expire.”

Participant papers and other materials from the Social Security Advisory Board's Forum on the Impact of Immigration on Social Security and the National Economy can be found on the Advisory Board's website at: www.immigration.ssab.gov.

KEYNOTE ADDRESS THINKING ABOUT U.S. IMMIGRATION IN A GLOBAL ECONOMIC CONTEXT

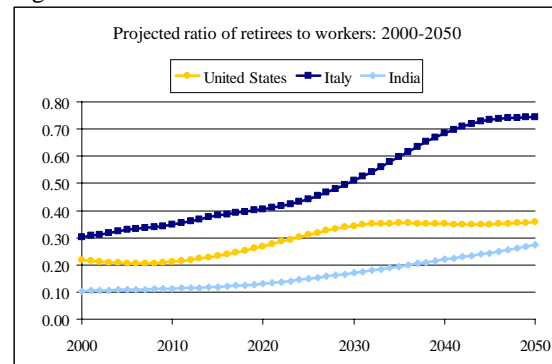
Sylvester J. Schieber, Vice President and U.S. Director of Benefits Consulting at Watson Wyatt Worldwide, and member of the Social Security Advisory Board, delivered the keynote address at the September 7th Forum. Below is a summary of his remarks.

In a global context, net migration is a zero sum game. For anyone to move here they have got to move from somewhere else. In the past the U.S. has been relatively attractive to immigrants, but the world may be changing. Attitudes toward immigration may also change and other nations may provide better opportunities for immigrants than they have in the past. In addition, there may be fewer reasons for people to move.

Another important consideration is the relative economic costs of retirement systems. The dependency ratio of beneficiaries to workers in the U.S. is expected to increase in coming decades. Benefits will be relatively flat or even decline a little because of increasing retirement ages. The combination suggests that the cost of our retirement system will go up significantly. In other developed economies, e.g., Italy, we will see increases in dependency ratios that are much greater than what we will experience here. But there are quite a number of lesser developed countries, e.g., India, where dependency ratios in

the future will be much less than in the U.S. [see Figure 4]

Figure 4:



Source: S. Schieber (2005)

The relative income of retirees compared to working age people is fairly consistent across the developed world, but increasing dependency ratios will drive up these costs. This is important in the context of attracting foreign workers to come into an economy. We support retirement programs by taxing productivity. If tax burdens become much higher, the relative economic benefit of coming here will be lessened. In the U.S. and similar nations, e.g., Canada and Australia, this burden will be much less than it will be in other countries, i.e., Italy, Japan, Germany, Spain, and others. Will these developed economies continue to be attractive

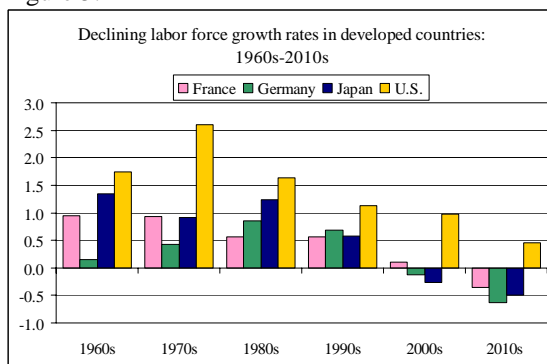
places for foreign workers given the rising costs of supporting retiree populations?

In any economy, it is the combination of workers and capital that produce output. The retirement system takes this output and diverts some of it to the retiree population. But in this context, a funded retirement system works just like a pay-as-you-go system where we withdraw money from workers' paychecks during their working career. In the U.S., we contribute it to a fund that accumulates interest. When you have a large retiree population, you have very significant outflows from accumulated assets. Countries like Italy could see their national savings rates go negative even with funded pension plans because of demographics. They will not be able to sustain the kinds of retirement patterns that they have in the past and their economies might even collapse unless they have significant immigration into them.

Declining Labor Force Growth and Productivity

The rate at which our economy grows is the sum of two other underlying rates – the rate of growth of our labor force, and the rate of growth of the productivity of workers. It is also somewhat dependent on how much we are willing to buy and consume. Labor force growth rate is very much dependent upon demographics, including immigration. But it is also dependent on our behavior, e.g., in Belgium the typical male retires by 57 or 58 but in Iceland males typically do not retire until age 67 or 68. The productivity growth rate depends on a variety of things: the capital base, the technology available, the quality and health of workers, etc.

Figure 5:



Source: S. Schieber (2005)

Starting in the 1950s and continuing through to the 1980s, the labor force grew as the Baby Boom generation moved into the work force.

During the 1990s, labor force growth slowed and we expect it to slow even further in the future [see Figure 5]. In most nations, labor force growth has varied from decade to decade, but there has been a relatively stable pattern across most developed economies. Productivity tends to grow fairly steadily, somewhere between 1.5 points and 2 percentage points per year. But there is a fairly consistent pattern across the developed economies of the world. In a number of countries, unless they start to change their behavior patterns, we are going to see their labor forces contract during the next decade; countries like Germany, Italy, Japan, and the other G-7 economies.

Across all of the developed countries since the end of World War II we have seen very consistent improvements in standards of living because their economies have been growing. When we look at official projections of where these developed economies are going to go over the next decade, it appears as if all of these economies are also going to continue to have sustained economic growth at about the same rates as over the last several decades. But the fact is that we will no longer have growing labor markets to help sustain that economic growth. So unless we change behavior, we are going to need somewhat higher rates of growth in productivity than we have been able to realize historically. But no one is specifying exactly how we are going to have such leaps in productivity improvement. If we expect output levels to continue to grow, but we do not have the workers or the productivity to sustain it, then the retirement system is going to be allocating an output that, collectively, we find disappointing, and the real question becomes how we go about allocating the disappointment.

Allocating Output: Retirees vs. Workers

In the discussion about our retirement system in the U.S. today, some people are saying benefits are growing too rapidly and they are going to put too much of a burden on workers. Others argue that benefits are at a level that is not overly generous to begin with; there is no way we are going to cut this, so we have got to figure out how to come up with additional financing. Any additional financing has to come from the working population that is producing the goods and services that actually create our national wealth.

In retirement systems of most developed countries, benefits are usually tied to wages over

time. To the extent that benefits are not tied to wage growth, they are indexed to price growth. Health benefits across the developed world tend to be financed through taxing mechanisms for the retired population, and in almost all cases they have been growing far more rapidly than productivity or wages. The combined impact of retiree pensions and health benefits is making an increasing claim on the growing economic productivity that roughly parallels or exceeds productivity improvement rates.

What are the economic implications of this? If we have a disappointing total output, and we are going to give the retiree population something that roughly equals productivity improvement rates in the economy, we are going to have to allocate the disappointment to workers. We would go through sustained periods where the working population's improvement in standard of living would track significantly behind that of the retiree population. It is questionable whether or not that is politically sustainable in the long-term. The alternative is to give the workers their productivity improvement rates and allocate whatever the residual is to the retiree population. If we do that we will see declining standards of living among the elderly across the developed economies world during the 2010s. It is also questionable whether or not that is a viable option. What will be the implications of these choices in terms of our ability to continue to attract workers into our economy, especially when these workers have choices to go elsewhere?

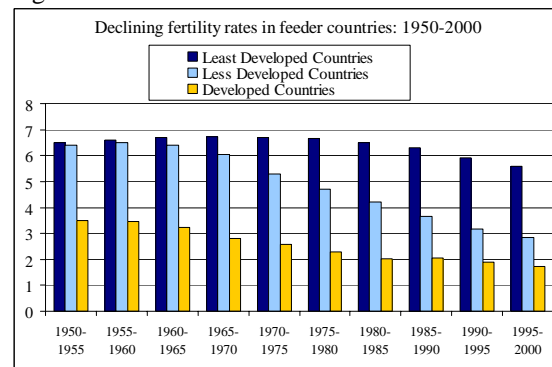
Political hostility often develops when immigration rates or the size of the immigrant populations becomes substantial. Across much of Europe, the politics of immigration over the last 4 or 5 years has become quite negative. But Europe has a much larger labor force problem than the U.S. Any suggestion that these economies are not going to be attracting workers into them to do some of the same sorts of things that we bring immigrants to the U.S. to do is not viable in the long-term. Even if countries try to put up barriers to stop immigration, they are probably going to realize significant increases in immigration rates relative to what they have experienced historically. What will be the implications for the U.S.?

Declining Fertility and the Supply of Migrants

In addition, the supply of immigrants coming into the U.S. and the developed

economies of the world depends on the production of people who are going to be willing to move here. In many of the feeder nations that we have depended on in recent decades, fertility rates have been falling quite significantly. [see Figure 6] In the Latin American countries we have seen a significant decline in the fertility rate over the last 2 or 3 decades. At some juncture, these societies simply are no longer going to be producing the potential numbers of people that can come here as they have in the past.

Figure 6:



Source: S. Schieber (2005)

In China and India, the two largest societies in the world, we have seen significant drop-offs in fertility rates. This is also true of Southeast Asia. All of these nations are significant feeder nations for the U.S. Fertility rates in Cuba and Puerto Rico are below replacement rate now. Mexico and Brazil seem to be moving in exactly the same direction. Will these societies continue to produce workers who will move to the U.S.? What are the implications if the supplies diminish?

This does not suggest that there will not be surplus workers around the world in the coming decades. In the countries *around* Europe – Northern Africa, the Middle East, Pakistan, Afghanistan, Kyrgyzstan, and Iran – it is expected that there will be significant growth in the working age populations over the coming decades. These are among the poorest economies in the world.

This imbalance accounts for what is happening, and what is likely to continue, in places like Spain and Italy where we see a flow of people out of these economies on an illegal basis into economies with a capital base that is starting to hollow out. Many Asian nations, including Japan, China and India, will also be significant growth engines in terms of the labor force. In the Americas labor force growth in

Canada is pretty much at its limit already. The U.S. will continue to grow but not much more than Mexico over the next 25 years or so. Central and South America will continue to grow somewhat, so there is potential surplus labor.

Capital Flows May Affect Migration Patterns

Over the last decade or so, a whole new phenomenon has begun to evolve and that is the movement of capital from developed economies of the world to *developing* economies. This is true in manufacturing and even in service industries. In effect, we are transferring low-skilled work out of our own economy. What might be the implications of this for immigration rates as we move forward?

If we continue moving capital and making capital investments in countries that have been our traditional feeder societies for immigrants, e.g., India and China, with education levels also rising in those nations, their standards of living are going to be much higher than they have been in the past. At some point the question arises as to whether or not people may perceive that they are going to be better off to stay where they are than to come here and pay high payroll taxes to support our aging society. That suggests that, if some of these feeder countries are no longer

going to be the major sources of our human capital, with what will the void be filled?

Conclusion

There will continue to be tremendous pressures in our economy to grow the immigrant population. As we look at what is going on elsewhere around the world and the other forces that are in play, we may see a very different immigration situation in the coming decades. We will continue to see significant immigration coming out of Mexico and Latin America over the next decade or so, but at some juncture it will decrease. In the end, we may have the same levels or rates of immigration going forward, but the sources of immigration are going to be very different than they have been in the past. For a Mexican looking to move to prosperity, the U.S. is now a natural place to go. But if you are living in the Middle East or North Africa, then it might be more natural to flow into Europe. Given the slowdown in the Mexican fertility rate, Mexico cannot continue to be the high supplier of working age people that it has been in the past. Their emigration rate is lagging the fertility rate by about 20 years to 25 years, so 20 years from now they might not have surplus population to export to the U.S.

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