The Impact of Demographic Change on U.S. Labor Markets: Discussion

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As its title indicates, the paper by Jane Little and Robert Triest deals with the impact of some upcoming demographic changes on the U.S. labor market. The two changes highlighted are the well-documented population aging and immigration. According to the paper, the challenges raised by these changes are rising and high old-age dependency ratios because of declining numbers of workers to retirees, and slower productivity growth, since migrants tend to have less education than the native-born.

I would only have quibbles, not quarrels, with their clear and balanced description of these future demographic trends, which relies mainly on Census projections. On both immigration and population aging, however, I believe that better estimates are available than those of the Census. But these superior estimates would still project a future labor force much like the one foreseen in the Little/Triest paper.

The one quibble I will mention is the hint in the paper that immigration can have a significant impact on the dependency ratio, since it would be much higher if immigration were zero. But we are no more going to have zero immigration in our future than immigration at rates three times current immigration. If we examine instead immigration either 50 percent higher or lower than current levels (which I think safely bounds the likely policy adjustments), our recent projections for the National Academy of Science indicate a variation in the overall dependency rate of less than 2 percentage points (Smith and Edmonston 1997). I think the standard conclusion that immigration is not a demographic fix for issues related to population aging is still pretty safe.

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The part of the Little/Triest paper on which I have more comments concerns their speculations about some possible adjustments to these demographic changes. The first adjustment concerns possible increases in productivity induced by low growth rates of the working-age population. In a nutshell, the argument is that these low population growth rates lower the growth rates in the numbers of workers, which in turn will raise real wages and thereby encourage labor-saving technology. A series of regression models are presented in the paper showing surprisingly strong negative correlations between population growth rates and productivity growth.

At least for the past few decades, it may not be surprising that this association exists. With the baby boom entrants coming into the labor force, population growth was more rapid in the 1970s and mid 1980s, while the economy was stagnant. In contrast, in the 1990s, population growth slowed and the economy was vibrant if not booming. But should we interpret this association as causal, a consequence of population trends?

I think there is ample good reason for skepticism about this result, a skepticism that I believe the authors in part share. Their result goes beyond the simple effects of weighting of the population by the young or more educated as population size shifts. If you think that the origins of the recent economic growth and productivity gains of the 1990s are in computer technology (as I do), then are we actually claiming that the advances in the computer sector were due to a slowdown in population growth? This seems beyond a stretch to me. Similarly, oil shocks are usually the first candidates mentioned for the slowdown in the 1970s. These oil shocks were certainly not the consequence of population trends. Population growth rates are long-run and forecastable. Even if the mechanism outlined in the paper were plausible, why should the capital investments await the arrival of these smaller or larger cohorts of workers?

The second adjustment discussed in the paper involves immigration. The concern expressed is that since immigrants are less educated than the native-born, this will be a force leading to lower productivity growth. This concern about immigrant education appears in two forms. First-generation education levels are much lower than those for native-born workers. Second, especially for Latino or Mexican immigrants, these education gaps persist and may even grow across generations. It is argued that educational progress beyond the second generation seems particularly slow for these groups.

I have both theoretical and factual problems with the section on immigration. The theoretical problem concerns the reasons for host country economic gains from immigration. Domestic workers gain from immigration because immigrants are different. If they were simply clones of domestic workers, we would just be scaling the economy up or down

with no changes in wages or output per worker. Immigrants can be different from us by having much more education or by having much less. Thus, less educated or less skilled immigrant workers increase total domestic incomes; they do not decrease them. At current levels of immigration, these increases in domestic incomes relative to the size of the economy may well be small, but they are positive, in part because immigrants have lower education levels than domestic workers do.

If we put this argument in a growth context, these gains will persist only if immigrants stay different. They can do this in two ways: First, their fertility rates can remain higher than those of the native-born, and second, education or skill differences can persist across generations. The first can be easily dismissed. Immigration apparently is an extremely effective contraceptive, and by the third generation all fertility differences have essentially disappeared. I will deal below with the empirical validity of the contention that generational progress in immigrants' education is slow. Here I want to note that only if it is slow will there be any effect on long-run growth rates of the economy. The very thing that Little and Triest worry about is what produces the positive impact of immigrants on growth.

Let me come to the factual questions on which I will now quarrel rather than quibble. On the issue of immigrant skills, I believe current perspectives are too influenced by changes induced by the country-of-origin provisions of the 1965 Immigration Act. These changes are the ones that have dominated the analysis in the literature as well. A fair summary of that literature is that the skills of immigrants are less than those of the native-born and this gap has been growing. In my opinion this view is extremely dated, and the trends have been decidedly in the opposite direction for about fifteen years. Across all immigrants, the education gap with natives is almost nonexistent, and immigrant skills have been increasing faster than those of the native-born. Among legal immigrants alone, immigrants have more skill and education than domestic workers do (Jasso, Rosenzweig, and Smith 2000).

Similarly, the view that there is a serious problem concerning generational assimilation, especially among Latino immigrants, is also in my opinion factually incorrect. The origin of these commonly held beliefs is a consequence of examining educational progress of immigrants by their generation status. If we look at people at about the same age, a reasonable summary of the data shows significant educational progress between the first and second generations, and little progress at all between the second and subsequent generations. While this is the common way such data are assembled, it leads to an incorrect conclusion. The reason is that members of the first generation are on average the fathers and mothers of the second generation and the grandparents of the third generation. Consequently, the generations cannot possibly be the same age. Instead, the data must be arranged so the first generation is

approximately 25 years older than the second generation and the second generation 25 years older than the third. When the education data by generation are arrayed in this more appropriate way, the progress in schooling achievements across generations is substantial, even among Latino immigrant groups (Smith 2001). While this finding is not an excuse for complacency about the real educational issues surrounding immigrant children, it does suggest that we should not be overly pessimistic about the future.

References

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