Peterson Institute for International Economics

Immigration and the US economy

May 20, 2025, 10:00 AM to 10:30 AM EDT

This is an unedited AI-generated transcript that may contain errors. Please confirm quotes in the corresponding event recording. If you find substantive errors, please contact meetings@piie.com.

[00:00:01.09] - Anjali V. Bhatt

Hi and welcome to PIIE Insider Live. I'm Anjali Bhatt, Communications Manager and Research Fellow here at the Peterson Institute for International Economics. I often say that one of the best parts of my job is that I can just walk into the office of some of the world's top economics experts and ask them anything, and then they answer. So with PIA Insider Live, you're coming with me to ask those questions and get those answers you won't hear anywhere else. Today we're speaking with Michael Clemens, a Nonresident Senior Fellow here at PIA and a professor in the Department of Economics at George Mason University. Prior to this, he He built the research program on international migration at the Center for Global Development. Before we start, if you're watching on Zoom, feel free to put your questions in the little Q&A box thingy. So, hi, Michael. Thanks for joining us.

[00:00:43.11] - Michael Clemens

Hi, thank you.

[00:00:44.23] - Anjali V. Bhatt

Okay, so there have been a lot of changes happening to immigration policies right now that are about unlawful immigration at the border, but then there are a lot of other changes happening to immigration policy that affect lawful immigration as well. What is happening?

[00:01:01.07] - Michael Clemens

Yes, this is a moment in the U.S. of convulsive policy change by any measure. A lot of those policies are seeking to curtail the number of people entering the U.S. and remove large numbers of people from the U.S. The motto of the administration in this effort is, and quoting Stephen Miller, "America is for Americans and Americans only," unquote. And there is a— it is a broad-based crackdown on not just people who have broken the law, but a range of other people as well. That's maybe a way that— and the public understanding of this effort. There are

around 9,000 military, active military troops deployed on US soil at the southwest border at this moment. You see sweeps of public areas and places of employment, churches, courtrooms, schools. And right now, the administration is calling up around 20,000 National Guard troops who are sort of reserve army managed by the states, but at the disposition of the president to assist in this effort. And really, in the public imagination, it amounts to a crackdown on unlawful behavior. It goes far beyond that. So it is a massive portfolio of policies to exclude lawful immigrants and even reclassify US citizens as immigrants.

[00:02:30.01]

I'm talking about zeroing out refugee arrivals, resettled refugees who in recent years have been about 8% of immigration to the US. That's flatlined now, including zeroing out support for existing refugees. These are all by definition legal immigrants. Cancellin' humanitarian parole, which is a legal status that somewhere around a million people have in the US right now, lawfully present, automatically authorized to lawfully work in the US. So converting those people from lawfully present immigrants to unlawfully present immigrants as a matter of policy. We've seen restrictions on high-skilled work visas, on student visas, all of them lawful immigrants. And beyond that, we've seen a program of policy to exile US citizens, natural-born US citizens who are dependent children, but their parents are authorized immigrants. And finally, as we speak, before the US Supreme Court, the administration is arguing for the right to treat those US citizens as if they were not US citizens, but actually expatriate them. So it's a very broad portfolio of policies geared around the exclusion of some US citizens, many And a large number who are not lawfully present.

[00:03:52.11] - Anjali V. Bhatt

So before we go too far into this, you were talking about, you know, lawful versus unlawful. And the language here really matters. I've seen undocumented used, unauthorized. You know, the administration pushes the illegal aliens line. Where do you land on this and why?

[00:04:13.12] - Michael Clemens

It's a big problem that we don't have good language for this. Better— the US urgently needs better immigration policy. That's got to come from public debate. Good public debate requires a shared set of terms. We understand what a chair is, what a microphone is. But, you know, the terminology that is used across the political spectrum is often just not accurate. It's motivated more by politics or even emotions than than being factual, popular on the political right is the idea of an illegal immigrant. And many of the people that we're talking about and are described frequently in the press that way, there's nothing illegal that they did. If we're talking about a

Venezuelan or a Haitian who arrived on a special humanitarian parole program created for them starting in October of 2022, we're talking about people who entered lawfully. Are lawfully present, parole is part of the legal definition of lawful presence, are authorized to work lawfully in the United States. Nothing illegal happened. And on the political left, we often get undocumented. The same Venezuelan and Haitian have documents signifying their status to be lawfully present and lawfully work in the US. A neutral and factual term for the people we're talking about, almost all of the people we're talking about is inadmissible.

[00:05:38.13]

This is a person someone who doesn't qualify for a US visa even though they entered, they can't be legally admitted. But you can be inadmissible and enter lawfully or not lawfully. You can be inadmissible and be lawfully present or not lawfully present. You can be inadmissible and be documented or undocumented. Maybe clear language and neutral language would be a small step toward more fruitful debate.

[00:06:07.06] - Anjali V. Bhatt

So inadmissible is what in theory we should be trying to use when talking about some of these people.

[00:06:13.12] - Michael Clemens

Irregular is a more popular alternative.

[00:06:15.22] - Anjali V. Bhatt

Irregular.

[00:06:16.11] - Michael Clemens

Inadmissible is a legal term that's factually correct that no one on the sidewalk knows. But these are both superior to the common language, I think.

[00:06:25.14] - Anjali V. Bhatt

Okay, that's good to know. All right, so we don't have to get too wonky with it, but Tell us about the different kinds of lawful immigration. What does that look like and how did we get here to this sort of setup?

[00:06:42.09] - Michael Clemens

Yeah. So another thing that I wish a lot more people understood is there's been a lot of chaos recently. There's political chaos, there's administrative chaos, there's been chaos at the southwest border. And that is a product of the collision of an unstoppable force and an immovable object. The unstoppable force is modern economic change, technological change, demographic change, events overseas like the collapse of Venezuela and many others. The immovable object is our legal system, which was fundamentally built by my great-grandparents' generation, and the last time it was substantially revised was 35 years ago. So I'm talking about, we have permanent legal immigration and temporary legal immigration. Under permanent legal immigration, there are broadly speaking for the lawyers out there, this is broadly broad terms, 5 categories. The first 3, family-based, family reunification, employment-based, and a broad category for presidential discretion were set up in 1917 to 1924 in a series of laws that restricted immigration at the federal level systematically for the first time and therefore created ways that you could get around those restrictions with a visa. And there was a fourth category of humanitarian, a systematic humanitarian system for refugee resettlement that was added in 1980.

[00:08:11.22]

And the fifth and last one we got is the diversity visa in 1990, which is a chance for people from countries with historically low levels of immigration, if they are a high school graduate, to enter a lottery for the chance to apply for a visa even though they don't have a family sponsor or an employer sponsor. That was 35 years ago. In the same law, they set quotas on our temporary work visas, which had been first set up in 1952. And there are tightly binding quotas on our work visas, which have not been modified in 35 years. So when you have a creaking, cracking system that was set up for a different world facing the forces of the 21st century, chaos is guaranteed. And that's what we're seeing.

[00:09:03.21] - Anjali V. Bhatt

Great. Of those different kinds of visas, so we have the permanent visas, we have the temporary, we have the family-based ones, we have the employment-based, what sort of— and the humanitarian. What's the breakdown of how those are allocated? Like, are most immigrants coming in, are they coming for work? What's that?

[00:09:24.09] - Michael Clemens

If you, at the 50,000-foot level, the US immigration system is family. In recent years, I believe 74% of the green cards for the United States have been family-based and only 17%

employment-based, something like 7 or 8% refugees, 3% diversity visa. So to first order, we're talking about a family reunification system that's not really geared to respond to economic change. And certainly the quotas that are baked into law and revised once every generation or two are not at all responsive to economic or even a tectonic demographic change.

[00:10:05.01] - Anjali V. Bhatt

Wow. Okay. So I was going to ask you if immigration is good or bad for the economy, but you've said in the past that that's like asking if agriculture is good or bad for the economy. What do you mean by that?

[00:10:20.12] - Michael Clemens

It's such a strange question and it just reflects my limitations that when people ask it, and I'm often asked that question, I don't understand it. It's like if I asked you, Anjali, what's the effect of your lungs your body. Your lungs are part of your body. Your body depends integrally on your lungs. Your lungs aren't something outside that affects you positively or negatively. And immigration is America. About 45% of the population either is an immigrant or their parents were an immigrant or they have an immigrant grandparent. I am one of those 45% of Americans with an immigrant grandpa. These are people we know and intimately interact with. They're us. And something that I wish people understood just about the economic aspect of that integral nature of immigration in America is that without immigration right now, the US labor force would be shrinking rapidly. It would be shriveling away.

[00:11:30.03] - Anjali V. Bhatt

Right now.

[00:11:30.11] - Michael Clemens

Today, the US Census Bureau produced produces projections of the US population by age structure into the future. They do different scenarios. One of those scenarios is zero immigration, no immigrants, no children of immigrants, no grandchildren of immigrants starting now. So keep the immigrants that are here, but no new ones come. And if you ask, well, in what year would the working age population of the US start to slow down its growth and start to fall due to demographic change? The answer was that happened about 15 years ago. So right now, today, 2025, per year, the workforce would be shrinking by 1 million employed workers per year. A million lost, never to be recovered every year if not for immigration. So immigration is at the, at the heart of economic growth in the U.S. And that, that's very visible to many Americans when they look at the field workers, ranch workers, dairy workers, 75% of the agricultural labor

force, and thus our food security rests on on immigrants' shoulders. They see immigrant scientists and innovators and entrepreneurs. About 46% of Fortune 500 companies were created by immigrants or the children of immigrants. These are very visible things.

[00:12:52.16]

But what I wish more Americans understood is that, you know, Silicon Valley doesn't just run on foreign scientists and entrepreneurs. Silicon Valley runs on childcare. Silicon Valley runs on construction workers. Silicon Valley runs on delivery workers. And security workers and farm workers, they are the people who are creating the salads that those people are eating in the restaurants. And there is that— those— the growth of the US labor force on which all of our prosperity depends and our future depends is across a wide variety of skill levels. And the immigration system we have was not at all built to respond to those needs.

[00:13:37.02] - Anjali V. Bhatt

So yeah, I guess I think the lung analogy probably makes a lot of sense there. Just immigrants are part of America and part of the economy, just the way that you and I are. Okay. So as you've just laid out here, immigrants are crucial to the economy in a lot of ways across sectors, across ages, across, you know, geography. And so you said if we— if, as the Census said, if we removed— if there was no more immigration, we would be losing 1 million of the workforce per year. The administration has said that they're aiming to deport— they're aiming to deport 1 million people per year. Besides the massive human and moral costs of that, what would that do to the economy?

[00:14:26.01] - Michael Clemens

So this is something that economists actually know a lot about. You see assertions from the administration, uh, U.S. workers will celebrate all the new job opportunities, is a statement that has been made by the administration. Those aren't based on, uh, facts and research. Economists have studied this quite a lot. And the opportunity for studying recent episodes of mass deportation came under the Obama administration, which to date is still the administration that has deported the largest number of immigrants from America, roughly 3 million during his two terms. And about 500,000 of those 3 million were under a particular program that offered a chance for researchers to measure its effects. It was called Secure Communities, and it was a system of county-by-county agreements between local law enforcement and federal immigration enforcement that had the effect of stepping up at the county level the number of deportations that were happening. And the research opportunity came in the fact that it was not, it was not brought into force in the entire country at the same time. It was rolled out county-by-county over

7 years. So you had this strange situation where there could be a county where mass deportation had begun, but often a very similar or in a neighboring county where it had not begun yet. And for several years, there's an opportunity to compare like a treatment and a control group.

[00:15:50.03] - Anjali V. Bhatt

That sounds like an economist's dream.

[00:15:53.15] - Michael Clemens

Yes. I mean, if we want to know transparently what was the impact of this, and a team of economists led by Chloe East at the University of Colorado analyzed those data asking the question, well, how many US jobs were opened up by mass deportation under the Obama administration? And the answer is negative. That is, mass deportation eliminated US jobs. And I don't mean that they resulted in Americans losing their jobs who could then 2 weeks later turn around and find another job. I mean that the number of jobs held by US workers county by county went down permanently.

[00:16:33.11] - Anjali V. Bhatt

There just weren't, there was just fewer jobs.

[00:16:36.06] - Michael Clemens

Yes. And they test the mechanism for that effect. And the main one is deterring the formation of new businesses and encouraging the exit, the closure of existing businesses, especially small businesses that depended on that labor, businesses where US workers and immigrants were working side by side, or businesses that were providing inputs or services to businesses where immigrants had been working. So it's not that— there's a myth out there that, well, natives don't want to do these jobs, only immigrants will do them. There are always a few natives that will do the jobs, but what mass deportation does is hollow out the the, the, uh, business activity that is creating all those jobs in the first place. And that scaling down of the entire local economy, or at the national level, the national economy, destroys more jobs for Natives than it creates. And we know that from studying mass deportation. Uh, other studies have used the same strategy, uh, to measure the effects on the construction sector. Um, uh, True Howard at the University of Utah and his co-authors estimate that mass deportation under Secure Communities greatly reduced the construction of new houses by about 2,000 new houses that went unbuilt per state per year caused by that mass deportation effort.

[00:18:00.16]

The people who are being deported are not typically the people who are in the market for a new construction house. So that means that didn't affect demand for new houses much, but it drastically curtailed the supply of new houses, having the effect of pushing up price. And other studies have shown that Secure Communities, mass deportation under Secure Communities, caused higher institutionalization of the elderly who had less access to affordable and accessible in-home care. So that is what Americans can expect in pure economic terms from mass deportation: fewer jobs, higher prices, less entrepreneurship by Americans, and and many other economic effects that are really quite unfortunate.

[00:18:47.11] - Anjali V. Bhatt

So what you're saying is that it's not like if we, you know, deport a million people, then that isn't just a million jobs now that American native-born Americans can take. It's just that everything that immigrants supported and contributed to, that sort of like craters.

[00:19:06.16] - Michael Clemens

That's the— That if we could just talk about one concept, it would be this. And that study by True Power to the construction sector is a perfect example of this. You know, in the construction sector, there's a lot of specialization in different tasks, all of which are necessary to build a house. And immigrants tend to be— not everybody, but they tend to be specialized in basic aspects of construction: framing, tiling, concrete pouring, roofing. No house without any of those things. And it's more often natives who are involved in things like electrician work, plumbing work, sales of the homes, management of the construction project, architecture, all of which are also necessary to the home. Those people are creating each other's jobs. They're not substituting for each other. They all depend on each other. And when you remove the framer, the electrician is not going to do the framing. And that's why Howard et al. find this large negative shock to the housing sector from mass deportation. And that's a much smaller effort than we're seeing now. So that's the best evidence we have from Secure Communities. We can expect much more of the same.

[00:20:21.19] - Anjali V. Bhatt

Many are saying from Econ 101 that those are complements and not substitutes.

[00:20:25.15] - Michael Clemens

Yes.

[00:20:26.16] - Anjali V. Bhatt

I see. So we talked about construction and we also spoke a little bit about caregiving and healthcare. You're a professor. I have friends who are students. I just finished my master's. I have friends who are students right now. What does this mean for the higher education community or world?

[00:20:45.14] - Michael Clemens

So that's— I was just meeting with the University of Chicago professor who said the big question on everybody's minds is, are the students going to come back in the fall? There's been mass cancellation of student visas in the United States, at least 1,500 that I know of canceled, often without explanation or warning. 1,500? Yeah. Wow. Some of which were then reinstated again without explanation or warning. There have been high-profile seizures of students off the street and being held effectively imprisoned for several weeks. And how the students of the world who have for a long time been just feeding and gifting their skills to the United States are going to react to that, are they going to keep coming, are they going to seek alternatives that lead to a more secure future, is something that even involved in higher education are on tiptoes wondering about. It's something that I'm not sure many Americans are aware of is that foreign students are the leading supply of high-skilled labor in some sectors of the economy. So if you look at venture capital-funded startups in the United States, over 20% of them are are founded by immigrants themselves. And how did those people get here?

[00:22:13.05]

Uh, three-quarters of that 25% came as a student. They didn't come to work. They didn't come on an investor visa. They came here to our universities and then emerged from those universities with skills, with contacts, with tacit knowledge.

[00:22:25.03] - Anjali V. Bhatt

And they wanted to stay here.

[00:22:26.13] - Michael Clemens

And wanted to stay here, were welcomed here. Uh, the, the United States, uh, facilitated their transition with things like optional practical training. Permit that is accessible to many students when they— many foreign students when they graduate. The policy of the administration so far has been to let many international students know that their status could be revoked at any time

and all of the investment that they made, family resources, years of their life, just thrown out the window at a whim. The administration has declared absolutely arbitrary authority to do that based on whatever it deems is in the national interest and has applied that policy quite broadly. So it's really one thing to watch going forward is what will happen, how international students are going to react. And that might be different by the country of origin, but there's certainly going to be some substantial reaction. Just anecdotally talking to students, they've noticed what's happening and they're adjusting their plans.

[00:23:36.08] - Anjali V. Bhatt

And I think that that's also a good example of how we were talking about earlier, how this isn't just about illegal immigration. This is also about lawful immigrants, international students who are here lawfully, and then stripping them of that legal status.

[00:23:51.04] - Michael Clemens

And natural-born US citizens who the administration is arguing now to the Supreme Court that they have the authority to consider them to be immigrants.

[00:24:00.03] - Anjali V. Bhatt

So, okay, we can get a little bit wonky with it. You mentioned OPT, Optional Practical Training. Yes. You recently wrote blog about that here. You can go find it on our website. Tell us more about that.

[00:24:14.15] - Michael Clemens

So the Optional Practical Training is a— it's not a work permit. It's a permission that is attached to the student visa of international students that allows them to work off campus with certain conditions for a year or a few years after graduation, depending on your field. And not many people know that it is the largest single channel for high-skilled immigration to the United States. H-1Bs? OPT is larger.

[00:24:42.05] - Anjali V. Bhatt

Wow.

[00:24:42.21] - Michael Clemens

Just in terms of the number of people who take it and work for a US firm every year. And, you know, America First Legal, which is a non-governmental organization which is highly influential in the current White House, the White House chief of staff is a member of that organization, has declared its intent to eliminate to, I think the word was terminate, OPT entirely. And that's not something to do lightly when you're talking about the number one source of high-skilled foreign talent in a country where economic dynamism, innovation rest on that flow of international talent and the enormous trust in the United States and the treatment and future of those people that those flows rest on. So that's also something to watch. It's, the administration has not has not declared its intent on what to do with Optional Practical Training, but it has— it floated the idea during the first Trump administration and ultimately did not act on the idea of eliminating OPT. Influential people in the administration have declared their intent to terminate OPT. We'll see what happens.

[00:25:56.00] - Anjali V. Bhatt

So I guess to put it sort of crudely, same with OPT, it's if they got rid of it, it's not like these high-skilled students, the high-skilled immigrants are taking jobs from native-born. And if we got rid of OPT, then would be all of these high-skilled natives who would then like take those positions. That's just not what's happening here.

[00:26:14.20] - Michael Clemens

No, the, the way that the, the international students on OPT typically stay to work in the U.S. is the, the H-1B visa, or some of them transition directly into an employment-based green card in a high-skill category. And the effects of, of that next step have been studied by economists including Giovanni Peri of University of California Davis, who's one of the top economists studying immigration. And when there have been large changes in policy restricting H-1B, again, the next step of the OPT pipeline that have resulted in the injection of large numbers of H-1Bs into particular US cities and regions, those have caused not just the employment of high-skilled workers, native workers in those areas to go up, but the wages and employment of low-skilled workers as well. And the way that they do that is by stimulating the economy. Resulting in economic growth, in entrepreneurship, in innovation, which are ultimately the source of all jobs. And there's this idea out there that immigrants are kind of like bananas, that when there's more bananas on sale, the price is going to go down. Bananas are not a factor of production to anything. You consume them directly. Immigrants' labor is not a consumable good that just substitutes for— better metaphor that they're more like eggs going into cookies, and natives provide the wheat, and both of those go into producing something.

[00:27:44.22]

And when you decrease the amount of eggs, you either get bad cookies or fewer cookies, but you don't just get more of the same. I've waited a lot. Yes, they don't substitute for each other.

[00:27:56.12] - Anjali V. Bhatt

Okay, that makes a lot of sense. Okay, we're almost out of time here. So So I'm going to put you on the spot to answer this in 2 minutes.

[00:28:06.06] - Michael Clemens

Yeah.

[00:28:06.16] - Anjali V. Bhatt

How do we fix this?

[00:28:08.16] - Michael Clemens

We fix it with lawful immigration channels. The US desperately needs a system for legal immigration with robust enforcement, a system that is built for this century. We need visa categories that are apt for our economy, visa categories, especially for low-skill work outside the farm sector that are not seasonal because elder care is not seasonal. Most construction is not seasonal. We don't have a visa for it. There are caps that were set 35 years ago baked into law that urgently need to be revised. We need new agencies of the US government to help set policy based on objective evidence and criteria. Other countries like the UK have such a thing. It's called the Migration Advisory Commission. We have nothing of the kind. And we need bilateral regulation. We have a fundamentally unilateral system where visas are offered and people do or don't show up at the embassy and apply for them. Migration is an intern— international phenomenon, inherently international. It's much better regulated in partnership with countries of origin. Things that happen in Mexico, Colombia, Chile determine what happens at the US border and in Nebraska and in Colorado. And we have very little of that.

[00:29:22.22]

In fact, right now we have a hurtling in the opposite direction of all of these things that the country really needs.

[00:29:30.20] - Anjali V. Bhatt

Okay. Well, I'm sure we'll be able to fix all of that very quickly. We are at time, Michael. Thank you so much for walking us through the immigration system. Thank you. Thank you all for joining us for this edition of PI Insider Live. What did you think? What do you want to see next? Let us know at meetings@pilie.com. And if you're not already, subscribe to PIIE Insider, the newsletter, at piie.com/subscribe. Thanks for joining us and we'll see you next time.