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A Beleaguered President, A Fizzled "Economic Stimulus Package", And A NAFTA Time Bomb

by Lindsey Grant

The President is facing a mounting crisis over unemployment and wages, which will come to the front as the Senate debates the proposed North American Free Trade Agreement (NAFTA). His "stimulus" package was largely irrelevant to the problem. The package, even by its sponsors' optimistic calculations, would have generated less than one-sixth as many jobs as are needed by foreign workers entering the U.S. labor market annually. Sooner or later, the President is going to have to face the reality of limits, and a good place to start would be to look at the labor supply side, which means looking at immigration. Like Presidents before him, he won't want to do it, but he may find the nation ahead of him and, paradoxically, behind him if he takes on an issue that has become a political taboo.

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For President Clinton, it has been a short, rough honeymoon: the early reversal when he faced the prospect of a mass migration of Haitian boat people; the fracas over gays in the military; Congress' rejection of his proposal to allow AIDS sufferers to migrate to the U.S.; the backdown over grazing fees and mining rights; the withdrawal of his first nominee for Attorney General, who showed a remarkably cavalier attitude toward the immigration laws that an Attorney General is pledged to uphold. The Senate deadlocked over his \$16.3 billion "economic stimulus" package. Coming up: Senate debate of his predecessor's North American Free Trade Agreement (NAFTA), and Hillary's proposals for national health care.

In most of these issues, we seem to see a man who is predisposed to be generous to everybody, suddenly facing unexpected and rising resistance. A certain realism seems to have invaded Congress, and perhaps an awareness of limits; even America is not omnipotent.

The "Economic Stimulus" Package

In the recent battle over the budgetary "economic stimulus" proposal, the President allowed Minority Leader Robert Dole to choose the battlefield. Even several Democrat senators were restless. Congress, apparently, has gotten the message that the voters right now want fiscal discipline more than pork. The President has not. The so-called stimulus program was a mixed bag of projects: job training, summer jobs, sewers, roads and mass transit, a \$4 billion

extension of unemployment benefits, an ice skaters' warming hut in Manchester CT.¹ Many of them would be nice if we can afford them, but they are hardly the stuff that justifies undercutting the concurrent effort to balance the budget. In the hyperbole of politics, it was claimed ("based on standard macroeconomic modeling"²) that the package would generate 500,000 jobs, 219,000 of them in the first year, but there was no detailed justification of the numbers. Remember that 219,000. We will come back to it.

Employment and Wages

The new administration shows a refreshing interest in the problems of working people, and it is disconcerted by the failure of the current recovery to generate enough jobs. If the concern is genuine, the President should stop trying to bull his way through problems in the old American way, and attempt instead to identify and correct the causes. The proposed "stimulus" was negligible in a five trillion dollar economy, and the dislocation in the labor market is going to require changes much more fundamental than BandAids.

The root problem is population growth, not the number of jobs. In a functioning economy, jobs should reflect the number of people willing and able to work, but ours has been a dysfunctional economy for years, because of technological and social changes.

For fifteen years, real hourly wages have gone down and the gap has widened between the rich and the poor. Part time

and minimum wage service jobs have replaced better and more skilled jobs. The movement of women into the paid labor force, now nearly completed, has increased the supply of labor in an era of diminishing demand for it. The economy has had to absorb the baby boom. More fundamental, the technological revolution that has raised productivity has also diminished the numbers of employees needed. Nobel Laureate Wassily Leontief years ago identified the problem: if fewer people can produce the goods and services the economy needs, what happens to the other people?

As a result of these changes, the national effort to help poor Blacks and other minorities get into the economy has been taking place in a hostile environment, as the jobs that they could start with have been evaporating.

The President's advisers worry about the persistence of an unemployment rate of about 7 percent. That figure far understates the problem. It does not count those who have simply dropped out. The problem is worst among the young and the vulnerable. Last December, of young Blacks 20-24 years old not enrolled in school, only 45 percent had full time jobs.³ Combine that with the competition for jobs, housing and services generated by current third world immigration to the cities, and perhaps it will help us understand why the cities are erupting.

The growing desperation is reflected in the rising unemployment rolls. Even the Senate Republicans went along with the \$4 billion addition to unemployment benefits. The number of people on food stamps reached a record 26.8 million this winter. The new 1994 budget, in a reversal of the usual optimism of budget projections, anticipates that it will go higher.⁴

The Labor Department estimates that 700,000 defense-related jobs have disappeared since 1987 and that another 1.3 million will disappear between now and 1997.⁵

The personnel cuts announced by Boeing and IBM have brought the problem to the middle class, which is likely to be much more vocal about its pain than the poor and the minorities who have been the principal victims. The Wall Street Journal quotes an estimate that "re-engineering" of production may wipe out 25 million of the 90 million jobs in the private sector. One observer says that "This may be the biggest social issue of the next 20 years."⁶

NAFTA As a Wild Card

Suddenly the press is singing a new song. Added to the dislocations generated by technological change and the shift away from defense production, there is a wild card: the growing integration of the world trading economy, and the impact that it is having upon employment and wages in the older industrial economies. The problem is dramatized by the NAFTA proposal, which will be extended to the entire hemisphere if its proponents have their way.

Eighteen months ago, I felt very lonely arguing with respect to NAFTA that "in a situation with free movement of goods and technology and capital — but not of labor — what happens? Employers tend either (a) to move toward the cheaper labor, or (b) to press for removal of impediments to importing cheap labor."⁷ I am getting company. Two recent New York Times articles were titled "America's Newest

Industrial Belt" (northern Mexico) and "Those High-Tech Jobs Can Cross the Border, Too".⁸ The second article exposed a critical and false assumption: that we can expect to keep the good jobs, ship the high value stuff to Mexico, and let them do the low skilled work. Haven't Taiwan and Korea and Hong Kong yet taught us the folly of that patronizing assumption?

Resistance to NAFTA is rising. A few months ago, its passage seemed assured. Now, although President Clinton endorses it with certain reservations, his own Budget Director believes it could not pass in Congress.⁹ There may be a growing awareness of the implications for labor.

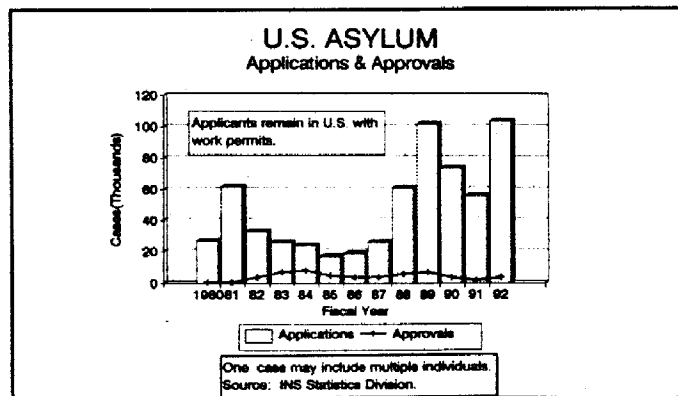
A Look at the Supply Side

If for all those reasons the private sector cannot absorb the workers, a policy based only on job creation — as distinct from efforts to make American labor more competitive — is nugatory. If we don't yet really know how to handle the side effects of technological change and the evolution of a world market, shouldn't we at least avoid making the problem worse? A sane policy maker would ask the question: "what can we do about the supply of labor?"

For years our national policies have been making it worse.

Immigration and fertility are the two significant determinants of the size of the U.S. labor force. Fertility presently plays a secondary role in driving labor force growth. That leaves immigration.

In 1980, the Refugee Act eliminated the quota on refugees, substituted a loose, non-binding "ceiling" of 50,000 per year, which has been substantially exceeded every year since. It regularized the category of "asylum" for those who could reach our shores. For the U.S. as well as European nations, this is becoming the preferred avenue for migrants who can't pretend to be "non-immigrants" and who face interminable waiting lists. Get here, and claim asylum. You will automatically be given a work permit until your case is adjudicated, and almost nobody is penalized for failing to turn up for his hearing, which may be years away, because of the backlog.

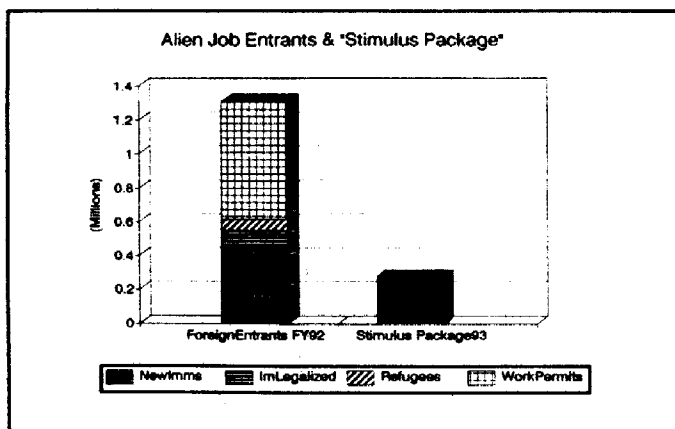


The graph shows the number of cases, each of which may involve one or more individuals. The total of 631 thousand cases may involve 800-850 thousand people.¹⁰ The trend is upward, and will probably continue upward as more people learn that this is the way to come.

In 1986 there was the Immigration Reform & Control Act (IRCA). It forbade the hiring of illegal aliens, in exchange for an amnesty of those here for five years or more and for resident farm workers, which turned into an especially inviting loophole. Some 3.1 million aliens applied, among them 1.3 million "farm workers", almost all of them Hispanic. Never mind that the Bureau of Labor Statistics believed there were only 234,000 real Hispanic farm workers in the U.S. at the time, including American Hispanics and legally resident aliens.¹¹ The New York Times ran a page one headline "...Fraud on a Huge Scale", but nothing else happened. The Immigration and Naturalization Service (INS) was totally unequipped to handle the problem, and the courts made sure that the burden of proof was on the INS. Few of the applicants were successfully challenged, and perhaps a million fraudulent "farm workers" scattered into our unprepared cities. It is not a one-shot affair. As they qualify for citizenship, they will be able to bring in their family members legally.

Legal immigration was around 600,000 each year during the '80's. This doesn't include the 800-850 thousand asylum applicants since 1980, or Cuban and Haitian boat people or non-immigrant visa overstayers or illegal border crossers, unless and until they are formally admitted as immigrants. (The "immigrant" count for 1989 and 1990 rose by 1.36 million over the normal flow because of legalizations under the 1986 IRCA.)

Whatever "normal" was, the Immigration Act of 1990 — Senator Kennedy's "Irish relief act" — raised the rate to over one million. Friends and family will follow them, legally or illegally. Again, consider the irrelevance of the recent political deadlock over an effort to create 219,000 somewhat dubious jobs, in the face of that sort of immigration, year after year...



As a result of this generosity, our economy is called upon to absorb a lot more job-seekers than it would if it needed to absorb only young Americans coming of age. From INS data and estimates, one can calculate that about 1.3 million aliens came on the U.S. labor market in FY 1992.¹² (There are data gaps, and there are no good figures for illegal immigration. The government probably underestimates it and has not been anxious to improve its data.¹³ The case of the ill fated Attorney General-designate who was employing cheap illegal

labor suggests a reason: there are a lot of influential people who don't want to inquire too closely.) Nevertheless, 1.3 million is a starter. Alone, it would overwhelm a 219,000 job package, even if that package were solid.

What Is To Be Done?

If the President is serious about unemployment, the place to start is with the supply of labor, and that means

** a hard look at our 1980 Refugee Act and at the flood of asylum applications it has generated;*

** a review of our other immigration laws, the way they are enforced or not enforced, with the question placed uppermost: "How do they affect the national welfare, and particularly the U.S. labor market?"*

** the repair of a failed statistical support system that makes it impossible even to know what is going on.¹⁴*

** a very close look at NAFTA.*

The question about NAFTA is not just whether big industries like it — the list of U.S. companies already moving to Mexico for the docile and cheap labor looks like a subset of The Forbes 500 — but whether it serves the U.S. economy, and particularly what it does to our mounting unemployment problem and the related tensions between those who are in the system and those who are out of it.

The President would also find that a more restrictive immigration policy and better data would generate benefits beyond the scope of this paper, in saving resources and protecting the environment, putting our agriculture on a sustainable basis, extending our energy reserves, reducing our balance of payments problem, addressing the problems of the cities and even helping to control terrorism. (The "CIA gunman" was an asylum applicant. At least one of the World Trade Center suspects and his spiritual leader were here illegally, and nobody knows quite how.)

It is not often given to Presidents to achieve so much with one policy — and it is a great deal cheaper to limit immigration than it is to try to create jobs in an economy that cannot use them.

Taking the Plunge

However, Presidents have regularly found it very difficult to take on this issue. There is enormous emotional freight riding on it. We see ourselves as a nation of immigrants. Generosity seems to demand liberality. Dare a President risk the charge of "racism" or "intolerance"?

There is a choice between helping our own people and helping others, and it would be a painful one for any decent human being. I believe the right choice is clear, however, once President Clinton comes to recognize the limits of U.S. power to redress all the world's ills. World population is growing more than 90 million each year, and the biggest surge of numbers in the working ages is yet to come. There is only so much we can do, and we risk doing it at the cost of our poor, our cities, and the future our children inherit. Seen thus as a choice among alternatives where we cannot do everything we want, it may be an easier choice to make. The President is, after all, committed by his oath to promote the general welfare of the people of this country and our posterity.

not of the whole world.

The President will find, as he has in his early brushes over Haitian boat people and the feckless would-be Attorney General, that opinion is well ahead of him. Over the years, polls by organizations such as Gallup and Roper have regularly shown majorities in the 60 to 70 plus percent range believing that immigration is too high. Most people — as distinct from their "leaders" and special interest groups — understand what is being done to them. The view is shared by those most affected. A recently released poll found that 66 to 79 percent of different Hispanic ethnic subgroups thought immigration was too high, compared with 74 percent for "Anglos" (non-Hispanic Whites).¹⁵

In a way, the choice resembles — on a much larger scale — the agonizing process of facing a world of limits as we try to balance the budget and to provide equitable health protection for all. We cannot always do everything for everybody. And on this point, the people may be ahead of the President.

NOTES

1. Associated Press (AP), 4-11-93, 15:15 EDT, and 4-12-93, 15:14 EDT.
2. OMB Director Leon Panetta *et al.* budget press briefing 4-9-93. The package was reduced from \$30 billion in the President's February 17th State of the Union message. What the budgeteers missed is that the "standard macroeconomic models" have failed to explain why recent economic growth itself has not created more jobs. Structural change is not the province of such models.
3. U.S. Department of Labor, Bureau of Labor Statistics Employment and Earnings, January 1993, Table A -7.
4. AP 02:10 EDT 4-9-93.
5. Testimony by Ronald E. Kutscher, Associate Commissioner, Bureau of Labor Statistics. AP, 4-12-93, 18:08 EDT.
6. "Price of Progress. "Re-engineering" Gives Firms New Efficiency, Workers the Pink Slip". Wall Street Journal March 16, 1993, p.1.
7. See Lindsey Grant Free Trade and Cheap Labor: The President's Dilemma. in the NPG FORUM series (Teaneck NJ: Negative Population Growth, October 1991) for an elaboration of the argument that the proposed agreement largely ignores the potential impact on U.S. labor.
8. Both articles were by Louis Uchitelle. 3-21-93 Business Section p.1 and 3-28-93 p.E4. respectively.
9. United Press International (UPI) 4-27-93, 10:12 EDT. Interestingly, the President may have more support from Republicans than Democrats on this one. 27 GOP senators sent him a letter pledging support for NAFTA as negotiated.
10. The proportion of "persons" to cases for asylum approvals 1982-91 was 1.294. Applying that ratio to applications would yield a figure of 817,000. The data base does not offer a summary total of denials and deportations, but the magnitudes involved and the length of the appeals process do not suggest they would much affect the total. In FY1992, there were 3919 approvals, 6506 denials, and 11571 cases closed, mostly because the applicant failed to appear.
11. U.S. Statistical Abstract, 1989, Table 642.
12. Personal communications. INS Statistics Division, 4-13 & 4-14-93. The actual estimate works out to 1.315 million. Using Bureau of Labor Statistics estimates, they assume that 57 percent of the 810,635 immigrants and 115,330 newly admitted refugees entered the labor market, as did 57 per cent of the 163,342 earlier illegal immigrants legalized in FY1992 under the act of 1986, and that all the 693,393 recipients of work permits (issued to asylum seekers and "non-immigrants" such as foreign students) entered the labor market. The figure is necessarily imprecise. Some of the legalized aliens had already been working. Not all the work permits represent new jobs. On the other hand, more than 15 million people arrive each year on non-immigrant visas. Some of them stay and work without permits, but they are not in these figures, nor are the illegal entrants, numbering somewhere in the hundreds of thousands, who came and sought work in the fiscal year.
13. See Lindsey Grant, What We Can Learn from the Missing Airline Passengers (Teaneck, NJ: NPG, NPG FORUM article November 1992.) There is an unexplained annual gap of over one million between passengers arriving and departing on civil aircraft flights. Census estimates of illegal immigration almost ignore this potential source. In so far as it is real, the gap demonstrates that illegal immigration through visa overstays is far larger than the official estimates. If the gap is partly illusory, the Census Bureau and INS are missing a chance to tighten up aircraft manifest reporting procedures and acquire some hard data.
14. For evidence of the state of the statistics, see Immigration Statistics. A Story of Neglect (Washington: National Academy of Sciences, 1985.)
15. Summary report released 12-19-92 of findings by Rodolfo O. de la Garza *et al.* Latino Voices: Mexican, Puerto Rican and Cuban Perspectives on American Politics (Boulder: Westview Press, publication planned 1993), Table 7.24. Interestingly, the survey was financed in part by the Ford Foundation, which has been a major supporter of ethnic immigration advocacy groups.



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