

Econ 101

BY DR. MICHAEL DAVIS

Dollars and Pesos

The real impact of immigration on the local economy is decades away.

TO UNDERSTAND THE REAL IMPACT of immigration on the economy, don't look at the woman cleaning your office or the man cutting your lawn. Look at Michael Castillo, a Dallas-based vice president and wealth advisor for a leading financial institution's private banking division. Castillo is a third-generation immigrant whose paternal grandfather and grandmother immigrated to the United States from Mexico in the 1930s with eighth-grade and sixth-grade educations, respectively.

After coming to the U.S. as teenagers in search of better economic opportunities, Michael's grandfather, Pedro Castillo, landed a job at a furniture store in Phoenix, Arizona, while his grandmother, Anita, cleaned houses in the more affluent neighborhoods of Scottsdale and North Phoenix. Initially, Pedro stocked, cleaned, repaired, and delivered the furniture, but he eventually managed the store and was in charge of all operations. He worked at the same company from 1933 until he died in 1986, serving from 1942 to 1945 in the U.S. Army in Europe during World War II.

"The sacrifices of my grandparents, on both sides of my family, to provide a better life for their children and grandchildren served as the single greatest impetus for me to attend college," Michael Castillo says.

For at least the past 15 years, the buzz has been all about how technology is changing the face of the American economy. True enough, but immigration may matter more. The numbers really are astonishing. Right now, about 11 percent of the U.S. population is foreign-born. In Dallas, that number is closer to 17 percent.

And, of course, these people work. About 14 percent of the national labor force is foreign-born. Between 1996 and 2002, immigrants accounted for more than half of the growth in the U.S. labor force.

The argument over whether these new immigrants displace low-skilled, native-born workers may be a hardy perennial topic



BREAKING BOUNDARIES: Michael Castillo is the new face of the local economy.

» THE TAKEAWAY

- 1 Economists are worrywarts.
- 2 Immigration helps the economy grow.
- 3 You can't talk about immigration without talking about education.

on talk-radio, but most economists find it a bit tedious. The consensus of rigorous research is that immigration doesn't do much to reduce wages or increase unemployment. What immigration does do, however, is help the economy grow. As Pia Orrenius, a senior economist at the Dallas Federal Reserve who has extensively studied immigration, has written, "The pace of recent U.S. economic growth would have been impossible without immigration." This is even more true of Dallas, where over half the growth in the labor force since 1996 has come from foreign-born workers.

But as much as these first-generation immigrants have bolstered the economy, we haven't seen anything yet. The children and grandchildren of these immigrants are here to stay. And like every succeeding generation of immigrants, they will become educated, acculturated, and employed.

LISA MEANS

The Castillo family bears this out. Michael's father holds a Ph.D. from the University of California at Santa Barbara, and today serves as a provost and history professor at the University of California at Santa Cruz. His mother has a master's degree and retired as chief administrator and counselor for the Monterey County Department of Substance Abuse. And his siblings both have advanced degrees.

"My grandparents and parents expected nothing less from my siblings and me than a college undergraduate degree," Castillo says.

Economists, of course, get paid to worry, and lately some have specialized in worrying about whether second- and third-generation immigrants will follow the same path of assimilation that was trod by the children of immigrants in the past. They say that things are different today for two reasons. First, the next step up from the bottom rung of the ladder—the step facing the child of an unskilled immigrant—is much steeper now than it was 50 years ago. Second, there is concern that for some reason, today's immigrants are less interested in or less likely to become fully assimilated.

The first point is true enough. In the past, an immigrant who spoke English and had a few years of education could master a trade and expect a middle-class life. Michael Castillo's grandfather was honest, intelligent, and willing to work hard. That proved to be enough in the eras immediately before and after World War II. Today's economy demands more than a basic education and ruthlessly penalizes those who fail to acquire it. But the economy also rewards those who do become educated. In the shallow and pinched world of the economists, education is just another type of capital investment. The rate of return on education has never been greater, and the data we have strongly suggests that this is as true for the children of immigrants as any other American.

The chart at right tells the story. Taken from a recent study comparing the income of immigrants and native-born individuals, it shows that after about 16 years, the average immigrant earns less than the non-immigrant. What is really

important, though, is the finding that after that time, the entire gap can be explained by differences in education. In other words, if succeeding generations of immigrants receive the same education as the rest of the population, they can expect to earn the same amount.

This raises an important question: If the economy offers all these wonderful opportunities to the children of immigrants, are they taking advantage of them? And this, in turn, leads to a more delicate question about differences between the various Hispanic cultures that are coming to America and the current American cultures that are here to receive them.

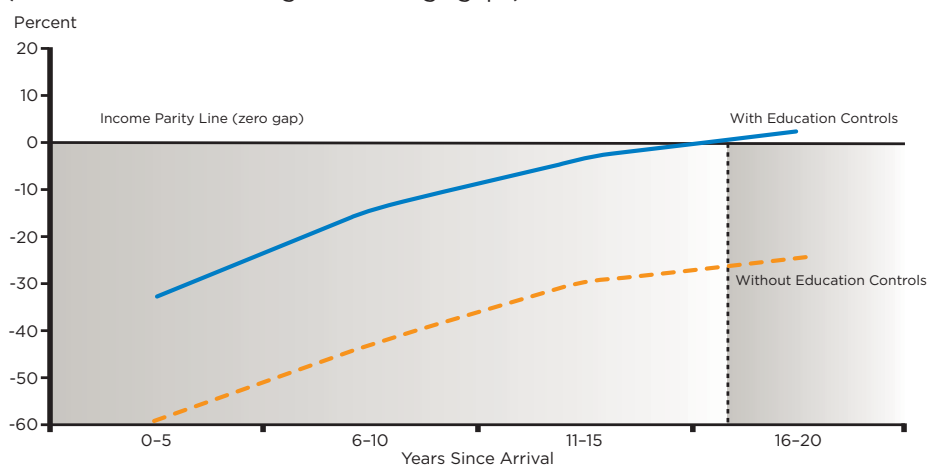
A lot of really smart economists who spend most of their time thinking about education and the economy are still trying

bogged down in a technical discussion over how to interpret complex data, there is a legitimate concern that some native-born Hispanics are acquiring less education—and hence earning less—than their non-Hispanic cohorts.

If Michael Castillo and his family are representative of the income and educational strides that ensuing generations of Hispanic immigrants will make, such concerns can be allayed. After beginning his professional career as a broker at Dean Witter (now Morgan Stanley), Castillo made the switch to Fidelity, where he advanced from a financial representative to vice president of Private Access (Fidelity's high net worth division). He then went back to school for his MBA at SMU Cox before graduating and accept-

IMMIGRANTS ASSIMILATE TO COMPARABLE NATIVES

(Predicted native-immigrant earnings gaps)



SOURCE: JOURNAL OF HUMAN RESOURCES

to figure that out. Everyone agrees that, on average, Hispanic immigrants arrive with significantly less education than native-born Americans of a similar age. Everyone also agrees that the children of Hispanic immigrants make significant educational gains over their parents. For example, only about 56 percent of first-generation Hispanic immigrants have a high school diploma, while about 85 percent of second-generation Hispanic immigrants (the first native-born generation) have finished high school.

So the real puzzle is whether Hispanic educational gains stall out after the first two or three generations. Without getting

ing a vice president position at a leading global private bank. Castillo, the new face of immigration, is doing his part to help the economy grow. **D**



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