

Houston Business

A Perspective on the Houston Economy

Immigration from other countries has profoundly changed Houston. Legal and illegal immigration, refugees and asylees, and an amnesty program have brought Houston great opportunities and new challenges.

Federal Immigration Policies Change Houston

While Houston was preoccupied with the oil bust and recovery in the 1980s, immigration from other countries profoundly changed the city. Legal and illegal immigration, refugees and asylees, and an amnesty program under the Immigration Reform and Control Act of 1986 (IRCA) brought Houston great opportunities and new challenges.

Immigration's effects fall primarily on urban areas, and eight cities—including Houston—are home to more than half the immigrants that came to the United States in the 1980s. Immigration policy has again become controversial, as exemplified by the passage of Proposition 187 in California. However, current interest in immigration reaches far beyond any one state, as evidenced by a first-ever presidential report on the subject, the report of the Congressional Commission on Immigration Reform and Texas' suit against the federal government that demands compensation for the government's failure to halt illegal immigration. This article discusses a complex issue that is important to Houston.

IMMIGRATION POLICY AND HOUSTON

We have no systematic assessment of immigration's benefits and costs to Houston or its institutions, although we can infer its influence indirectly from a variety of data. The last census showed 290,000 people, or 17.8 percent of Houston's population, to be foreign-born. Among these immigrants, 168,500—some 58 percent—came to Houston between 1980 and 1990. The city's total population growth in the 1980s was diverse but dominated by Hispanics. With 2-percent overall growth, Anglos fell in number by 20 percent, African-Americans

grew 4 percent, Asians grew 12 percent and Hispanics 60 percent. Of the 378,000 Texas amnesty applications under IRCA, Houston provided 35.4 percent. Metropolitan Houston is now home to the largest Hispanic population in Texas and the sixth largest in the United States.

There is no single explanation for these trends. Immigration policy is strictly a federal responsibility, and U.S. immigration law encompasses three distinct areas: *legal immigration* is primarily to enter the United States for family reunification or to provide specific job skills that are scarce domestically; *humanitarian admissions* are for refugees and asylees; and *illegal immigration* consists of about one-half illegal entrants and one-half legal entrants who overstay their visas. In 1986, the Immigration Reform and Control Act created a large new group of previously illegal but amnestied immigrants. Each of these laws and policies deeply affected Houston in the 1980s.

An immigrant is any person who comes to the United States with the intent to stay permanently. Over the past 30 years, U.S. immigration policy has changed dramatically. Before 1965, a national-origin quota system determined who entered the United States legally. Under this system, two-thirds of the immigrants came from Europe or Canada, another 25 percent from other Western Hemisphere countries and only 6 percent from Asia. The 1965 amendments to the Immigration and Nationality Act created new national-origin quotas, resulting in a swing in the composition of legal immigration away from Europe and Canada (13 percent in the 1980s) and toward other Western Hemisphere countries (47 percent) and Asia (37 percent). The 1965 act not only changed quotas but greatly increased them, doubling the legal admissions to the United States from 300,000 per year in the 1960s to 675,000 in the 1990s.

Prior to 1986, it was illegal to be an undocumented alien in the United States but not to hire one. The IRCA changed this, imposing stringent employer sanctions and simultaneously offering amnesty to 3 million illegal workers. However, our unwillingness or inability to control illegal immigration still results in 200,000 or more net additions to the U.S. population each year. Further, humanitarian admissions to the United States doubled between 1985 and 1990. The total effect was that 9.5 million immigrants entered the country in the 1980s, nearly 1 million more than at the peak of the last great wave of

immigration at the beginning of the century. More than half of the U.S. population increase in the 1980s is attributable to immigrants.

COSTS AND BENEFITS OF IMMIGRATION

A decade ago, the conventional wisdom told us that immigration was an economic windfall for the United States. The typical immigrants of the 1960s, for example, arrived in the United States at a disadvantage in terms of culture and language, but after a decade they out-earned the native population. However, the broadly inclusive immigration policies pursued by the United States in recent years no longer clearly lead to these results. Most recent immigrants entered the United States with weaker skills than earlier immigrants, and there is compelling evidence these groups may never match the earnings of native workers. However, as we appraise recent immigrants, it remains important to distinguish legal, illegal, humanitarian and other immigration.

According to the Urban Institute, immigrants are concentrated at the extremes of the educational distribution. They are more likely than the native population to have low educational attainment but also more likely to hold advanced degrees. Immigrants entering between 1980 and 1990 can be divided into three groups: those from Mexico, El Salvador and Guatemala; those from 11 refugee countries such as Cuba, Vietnam and Afghanistan; and those from all other countries. The first group of countries supplies more than 50 percent of illegal immigration to the United States, as well as 80 percent of those legalized under IRCA. The educational differences among these groups are wide; 75 percent of the immigrants from countries that supply large numbers of illegal immigrants have less than a high school diploma. Immigration dominated by legal sources, however, has a strong representation among the highly educated, much better, in fact, than the native population.

Similar differences arise among these groups in annual earnings. Recent immigrants, taken together, may lag the earnings of the native population in recent years, but it is unclear we can make this case for legal immigrants, who make up more than 60 percent of recent entrants. Also, whatever their educational status, we collectively agreed to accept IRCA immigrants as we began controlling illegal immigration through employer sanctions. Further, refugees and asylees

enter as part of a fundamental national commitment to those fleeing persecution.

Historically, the debate over immigration has focused on jobs. Difficult economic times bring out anti-immigrant feelings, and it is no coincidence that Proposition 187 succeeded when California's economy badly lags the nation's. Do immigrants take jobs from American workers? Whatever the public perception, repeated studies of national and regional labor markets find a weak negative relationship between the number of immigrants to a region and a decline in job opportunities and wages. No relationship is apparent even in such dramatic cases as the Muriel boatlift from Cuba, which brought mostly unskilled workers who swelled Miami's labor force by 7 percent almost overnight. There is some evidence, however, that recent immigrants may have flooded a more narrowly defined market for low-skilled and low-wage workers. In the 1980s, high school dropouts saw a decline of 10 percentage points in real wages relative to those with a high school diploma. Based on reasonable estimates of wage response to immigration, new entrants could be responsible for half of this decline.

Jobs are the primary magnet for legal and illegal immigration, but public attention has recently focused on a perceived "benefits magnet" that draws immigrants to the United States. Does the immigrant pay his or her way in the welfare state? The only point of agreement among studies that examined this issue is that immigrants exact a high price in required social services and education, perhaps \$40 to \$50 billion per year. Legal immigrants impose the highest costs because they are the biggest group, with social service demands typically made soon after arrival as they adjust to a new culture. Refugees impose costs through a number of well-defined programs that help them settle in the United States. Fewer benefits are available for illegal immigrants, although they or their U.S.-born children may qualify for public housing or aid for dependent children. Federal court mandates that children of undocumented aliens receive a free public education through grade 12 add substantially to the cost of undocumented workers. Proposition 187, aimed at cutting off health, welfare and educational services to illegal workers, has been widely perceived as uncompassionate and even posing local health and other social risks. Further, the initiative aims at the lesser of two magnets—jobs dominate

welfare as a lure to immigrants.

Immigrants also pay taxes and thus help pay for social services, but studies sharply divide on whether their taxes are enough to cover their own costs. The studies use an accounting framework that bogs down in many contradictory assumptions and results. Again, however, legal immigrants probably pay their way in the long run, and for IRCA immigrants and refugees it is beside the point, as the United States welcomed them here for other reasons. This leaves only illegals, the group with the least access to social services, falling outside policy and law.

ILLEGAL IMMIGRATION

The presence of 3.5 million illegal immigrants in the United States is evidence that employer sanctions under IRCA have failed to deter illegal immigration. Estimates of how well employers comply with IRCA vary, but enforcement under IRCA is complicated and invites the use of fraudulent documents. As many as 29 different documents can now be used to establish work authorization, although the Immigration and Naturalization Service is working to reduce that number. Widespread use of fraudulent documents undermines IRCA's requirement that employers "knowingly" hire undocumented workers before the INS can impose sanctions.

A system to control permission to work in the United States has proved difficult to design. It can't impose heavy sanctions that frighten employers into discriminating against recent immigrants because they have a foreign appearance or accent. For example, Strategy Research Corp. estimates 34 percent of Houston's Hispanic population is primarily Spanish-speaking and only learning English. One proposal from the U.S. Commission on Immigration Reform involves a computerized registry, based on the Social Security card of *everyone* authorized to work in the United States. However, such a system also raises privacy issues associated with a central database.

Finally, we must consider our neighbor Mexico. Mexico benefits from immigration as a safety valve for unemployment and from the repatriation of wages to relatives. Further, Mexico feels our lack of border enforcement is an open invitation to its citizens—an inducement—to come to the United States and provide low-wage labor. Mexico has deep concern about how we treat these immigrants.

After a slow start, local retailers enjoyed a good holiday season. Energy markets remained largely unchanged in recent weeks, except for very weak refining profits that stemmed from last-minute changes in government mandates for reformulated gasoline. Overall, reports indicate steady but moderate growth continued in Houston through late 1994.

RETAIL AND AUTO SALES

New car and truck sales jumped 8 percent in November compared with year-earlier figures, but much of this improvement only offset sales lost to flooding in October. Dealers reported continued strong sales through December, which is an important month in the auto business. Final 1994 figures for Houston-area auto sales will probably show no growth over 1993 sales.

Retailers found November to be very slow and difficult through the Thanksgiving holiday season; unseasonably warm weather hurt the sales of clothing and other seasonal items. Sales turned around after Thanksgiving, and the typical retailer saw improvements of 5 percent or more, compared with Christmas 1993. However, extensive promotions and discounting may have cut heavily into profit margins.

LUMBER AND PAPER

Lumber demand continues to be strong, with growing commercial construction making up for the decline in residential demand seen in late 1994. Demand for all paper and cardboard products continues to grow strongly, and prices continue to rise. Newsprint prices, for example, were up 20 percent in 1994.

ENERGY PRICES AND DRILLING ACTIVITY

Oil prices remained in the \$17 to \$18 range in recent weeks, just as they did in September. Natural gas prices, however, plunged to three-year lows because of one of the century's warmest winters. Natural gas storage remained about 10 percent higher than in 1993. Although

the domestic rig count weakened noticeably in late 1994, respondents felt it was related more to one-time factors than weak natural gas prices. Oil field services and machinery companies reported that good sales activity continued, with firm prices for their products. Weakness in U.S. drilling was offset by improved prospects overseas, especially in Latin America, and good levels of activity in Canada and the Gulf of Mexico. Respondents felt that natural gas drilling would suffer this year, but that better oil prices (severely depressed when drilling budgets were put together in 1994) would offset much of the gas-related decline in 1995.

DOWNSTREAM ENERGY

Refiners experienced extremely poor margins in December, and some capacity has been shut down until prices improve. Gasoline prices plummeted on news of several counties pulling out of the reformulated gasoline program, and fuel oil sales were hurt by the warm winter. In contrast to refining margins, retail marketing margins were wide and very profitable. No significant spot shortages were reported as the reformulated gasoline program went into effect in early 1995.

Petrochemicals remain in short supply, prices continue to rise, and profits are very strong. Demand is particularly strong from the auto and industrial equipment sectors; most petrochemical customers find their suppliers are rationing limited inventories.

REAL ESTATE

Industrial occupancy jumped sharply in the fourth quarter, led by surging demand for warehouse space. For the first time since 1991, Houston managed to lease more office space than was vacated during the year, but rents remain flat. New and existing home sales are still sluggish, as they have been since mid-1994, with small entry-level homes remaining the dominant factor in the single-family housing market.

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