

THE TEXAS ECONOMY

O'NEIL CENTER FOR GLOBAL MARKETS AND FREEDOM ★ SMU COX SCHOOL OF BUSINESS ★ FIRST QUARTER 2018

Foreign-Born Workers in the Texas Economy

By W. Michael Cox and Richard Alm

Throughout most of Texas' history, labor has been a scarce resource, particularly in good times. The remedy has usually been in-migration—people from other places seeking opportunity in Texas. Some newcomers have arrived from other parts of the United States; others have come from foreign countries.

Over the past decade or so, when times have indeed been good, Texas led the nation by a wide margin in attracting migrants from other states—on net, a total of 1.4 million since 2004. These transplanted Americans, however, haven't arrived fast enough to meet increasing labor demand in a state on a fast growth track.

To fill its employment rolls, Texas has turned increasingly to foreign-born workers. By 2016, the Census Bureau reports, immigrants made up 22 percent of the state's workforce, well above the national average of 17.2 percent. Six other states relied on foreign-born employees for a fifth or more of their workforces, led by California at 35 percent, followed by New Jersey, New York, Nevada, Florida and, hopping over Texas, Maryland (see chart right).

More than half of Texas' immigrant workers came from Mexico, an adjacent country with surplus labor and historic ties to Texas. Over all, Mexicans made up 12 percent of Texas' workforce in 2016, with 3.3 percent from other Latin American countries and 6.7 percent from rest of the world. For the nation as a whole, 4.8 percent of immigrant workers came from Mexico, with 4.4 percent from the rest of Latin America and 8 percent from other countries—a significant difference from the composition of Texas' foreign-born workforce.

Among the seven states most dependent on immigrant labor, all except Maryland tilt toward workers born in Latin America, with Mexicans dominant in California, Nevada and Texas. Foreign-born workers in New Jersey, New York and Florida are more likely to come from other parts of Latin America—for instance, Cuba for Florida.

This issue of *The Texas Economy* takes a timely look at Texas' foreign-born workforce—where it comes from, where it works and how it helps the state maintain its prosperity. The data suggest that immigrant workers are an important part of the labor force, particularly in this state and a few others. What the numbers

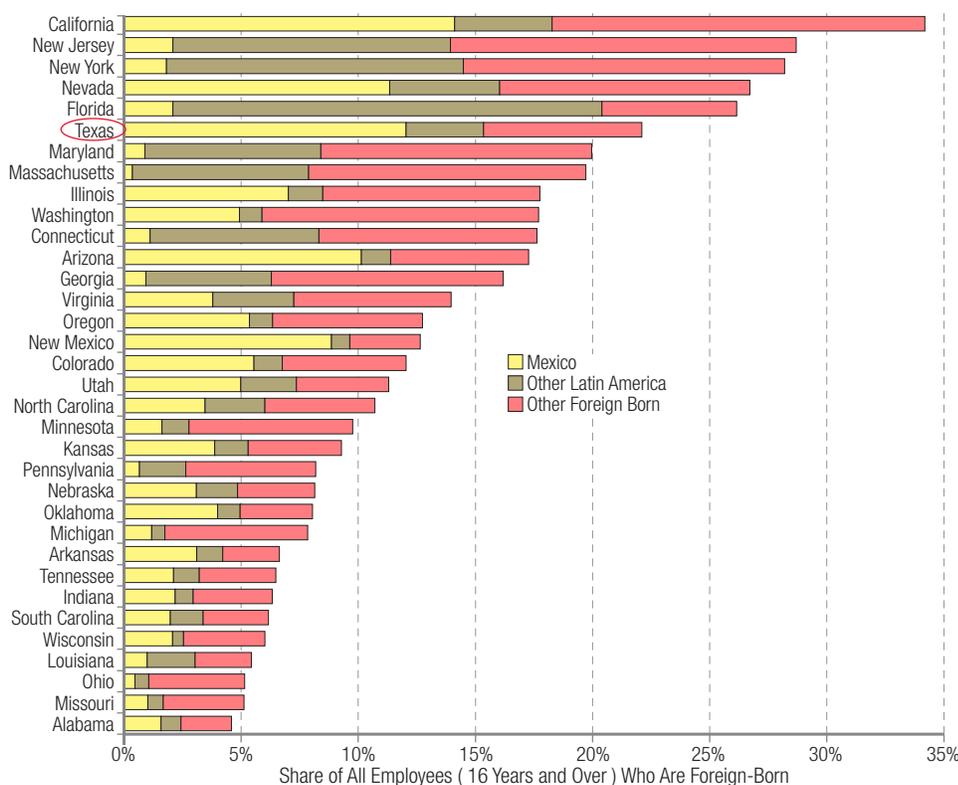
don't reveal is the controversy brewing over whether foreign-born workers are good or bad for the United States.

Two Views of Immigration

In Texas and elsewhere, workplaces would probably be even more globally diversified if not for immigration laws that limit the number of foreigners entering the United States. In some form or another, these restrictions have been around for more than a century—and they've often been divisive.

That's certainly true today. In the past year or so, the immigration debate has reached another flashpoint—despite

TEXAS NEAR TOP IN HIRING FOREIGN-BORN LABOR



the fact that the U.S. economy has been creating 200,000 jobs a month for two years. In the past, anti-immigrant campaigns tended to focus on enforcing laws against illegal workers. Today's ascendant America First movement takes it a step further by calling for sharp reductions in legal immigration, including educated workers badly needed in technology industries and those gainfully employed in the United States for decades.

Although issues of immigration policy aren't entirely economic, those who want to tighten restrictions contend foreign-born workers take jobs native-born Americans could fill and depress wages by working for less money. Those who welcome more immigrant labor counter that foreign-born workers take jobs Americans shun, bring needed skills and contribute to growth and prosperity.

Time and place may matter in how these views play out. Parts of the country suffering through high unemployment and weak job growth might see immigrant workers as a bigger threat than places like Texas, with low unemployment and high demand for labor.

Some Texans have expressed concern that Mexico has been singled out in the anti-immigrant agitation. National leaders have portrayed Mexicans as criminals, stepped up immigration enforcement in Latino communities and proposed building a border wall from Brownsville to San Diego.

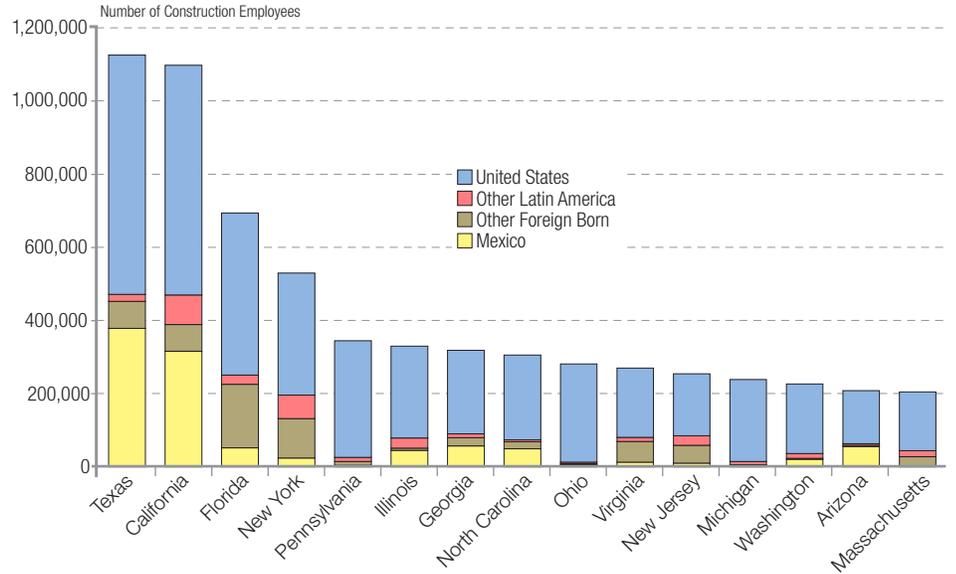
Immigrant labor will play an important part in growing the Texas economy, one that shouldn't be taken for granted at a time when increasingly strident anti-globalist sentiments portray foreign-born workers as a blight on the American economy.

Building for Tomorrow

To continue on its fast-growth path, Texas needs affordable homes for an expanding population and buildings for new and transplanted businesses. The state has turned to foreign-born workers to keep up with the heavy demand for new construction.

In 2016, Texas led all other states with more than 1.1 million construction jobs—a reflection of the sheer size of the state's building boom (see chart

TEXAS, CALIFORNIA RELY ON IMMIGRANTS FOR BUILDING



above). According to Census Bureau data for that year, Texas employed 471,083 foreign-born construction workers, just below 42 percent of the industry total. The state just edged out California in jobs for immigrant construction workers (466,932), although California's lower industry employment produced a slightly higher share.

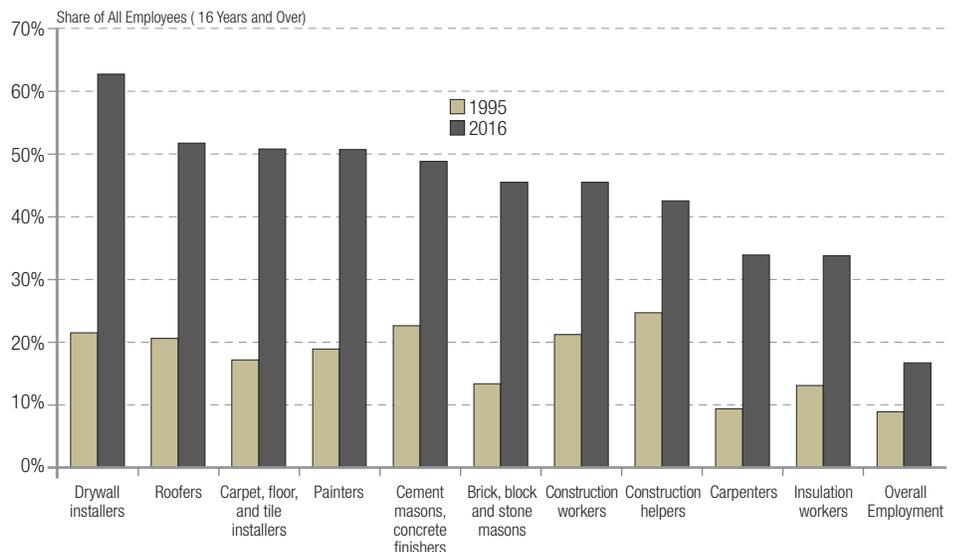
No other states come close to Texas and California in employing foreign-born construction workers. Only one tops 200,000 immigrant construction workers—Florida at 250,869, or 36 percent of its industry total.

When it comes to the building trades, Texas depends heavily on immigrants from countries to the south. A third of

Texas' construction workers came from Mexico—more than any other state. Adding the rest of Latin America raises the share to more than 40 percent. Less than 2 percent were born in other parts of the world.

State-level data don't tell us what these foreign-born construction workers do on the job—but it's a good bet Texas has been moving the same direction as the rest of the country. On a national level, the Census Bureau reports that Hispanics, both U.S.-born and immigrants, dominate many skilled occupations at building sites. In 2016, they made up 63 percent of drywall installers, 52 percent of roofers, 52 percent of carpet and tile installers, 51 percent of painters and 49

HISPANICS SHARE OF U.S. CONSTRUCTION JOBS RISING



percent of cement masons.

What’s more, the national data show a sizeable shift toward Hispanic construction workers in the past two decades (see chart previous page). Among drywall installers, for example, Hispanics’ share increased more than 40 percentage points. The gains exceeded 30 points among roofers, carpet and tile installers, painters and brick masons.

Construction isn’t the only Texas industry employing significant numbers of immigrants (see table right). In 2016, more than 27 percent of manufacturing workers were born overseas, with natives of Mexico accounting for nearly 15 percent of total factory employment. A broad employment category that includes hotels (maids) and restaurants (cooks, bussers, waiters) was at 25 percent, with nearly 16 percent from Mexico. Other sectors above 20 percent foreign-born were professional services, agriculture, wholesale trade and transportation.

Where were immigrants less likely to work in 2016? Public administration had the lowest rate of foreign-born labor in Texas at 8.5 percent. Financial services, information, health services and retail trade were below the statewide average.

An estimated 40 percent of Texas’ foreign-born workers are naturalized citizens. The remaining 60 percent hold green cards that allow them to work or they work illegally—the Census Bureau jobs data doesn’t break it down. The Pew Research Center, the go-to source on U.S. Hispanics, estimates that in 2014 Texas’ 1.2 million illegal immigrants made up 8.5 percent of the state’s civilian labor force, a different concept that includes both employees and those looking for work.

Federal law no doubt hinders illegals’ employment in Texas. Employers must attest to the legal status of all employees (Form I-9), and the authorities sometimes conduct raids on companies suspected of employing immigrants without a legal right to work. Enforcement may be having some effect: The number of illegal workers has been flat nationally for nearly a decade, Pew reports.

Texas’ Economic Interest

Texas’ labor market has never been

FOREIGN-BORN EMPLOYMENT IN TEXAS INDUSTRIES

Industry	Share of All Employees (16 Years and Over)			
	Foreign Born	Born in Mexico	Born in Other Latin American Countries	Born Elsewhere
Agriculture ¹	20.8%	12.2%	2.3%	6.4%
Construction	41.8	33.6	6.6	1.7
Manufacturing	27.4	14.7	3.7	9.1
Wholesale Trade	20.3	10.7	3.5	6.2
Retail Trade	17.7	8.8	2.7	6.2
Transportation ²	20.2	10.4	4.0	5.9
Information	16.2	4.1	2.9	9.3
FIRE ³	13.4	5.0	2.1	6.4
Professional Services ⁴	23.1	11.2	3.5	8.5
Health Services ⁵	16.7	6.6	2.0	8.1
AERAFS ⁶	25.0	15.6	4.4	5.0
Public Administration	8.5	3.4	0.9	4.1
Other	32.1	18.0	4.9	9.2

- 1. Agriculture, forestry, fishing, hunting and mining.
- 2. Transportation, warehousing and utilities.
- 3. Finance, insurance, real estate, rental and leasing.
- 4. Professional, scientific, management, administrative and waste management services
- 5. Health care, educational services and social assistance
- 6. Arts, entertainment, recreation, accommodation and food services.

tighter. The state added 264,000 jobs in 2017, a year that ended with a fourth-quarter unemployment rate just 4 percent—the lowest for a data series that goes back to 1976 (see *Charting the Economy, Page 4*). With its labor demand running ahead of its supply, Texas is already encountering constraints in key industries. In early 2018, for example, the Dallas Builders Association reported shortages of about 20,000 construction workers, delaying the building of an average home by a month and raising costs by \$5,000.

Another flashpoint is the landscaping industry, which typically uses H2-B visas to bring in immigrant workers for seasonal jobs. Fewer visas were made available this year, and companies are facing a summer of labor shortages for lawn mowers and other landscaping workers.

Texas’ overriding economic interest lies in continuing on the path of strong growth—keeping a good thing going. That will require adding more workers to a labor force already showing sign of strain. Some of the needed labor will come from other states, as it has in the past, but improving labor conditions in other parts of country may slow domestic migration to Texas. So immigrants will may have to play an even

larger role in filling the ranks, particularly in construction and other industries that have historically depended heavily on foreign-born workers.

National policies that tighten legal immigration would create the risk of more severe labor shortages in Texas. They would then ripple through the economy. Let’s start with an industries already facing employment constraints—construction. Without enough workers, for example, Texas builders wouldn’t be able to meet the demand for new homes and commercial structures.

With building crimped, real estate prices would rise across the board. Higher housing prices would deter Californians and New Yorkers from moving to Texas. As population growth slows, other companies would face labor issues and see their costs rise, eroding a business climate ranked among the best in the nation. Fewer firms would move to the state. Texans would pay more for housing and other expenses, leaving less money for other purchases. A state government that depends on sales tax revenues will collect less money for spending on schools and other needs.

In short, rising labor costs can start a vicious cycle that makes us poorer than we’d otherwise be—and Texans shouldn’t want any part of it. The state

has done quite well in recent decades with open trade and expanding employment of foreign-born workers. What's worked in the past will work in the future.

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Next issue: A quarter of local experts discuss how President Trump's policies on corporate taxes, regulation, immigration and the oil and gas industry are likely to impact the Texas Economy.

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CHARTING THE TEXAS ECONOMY

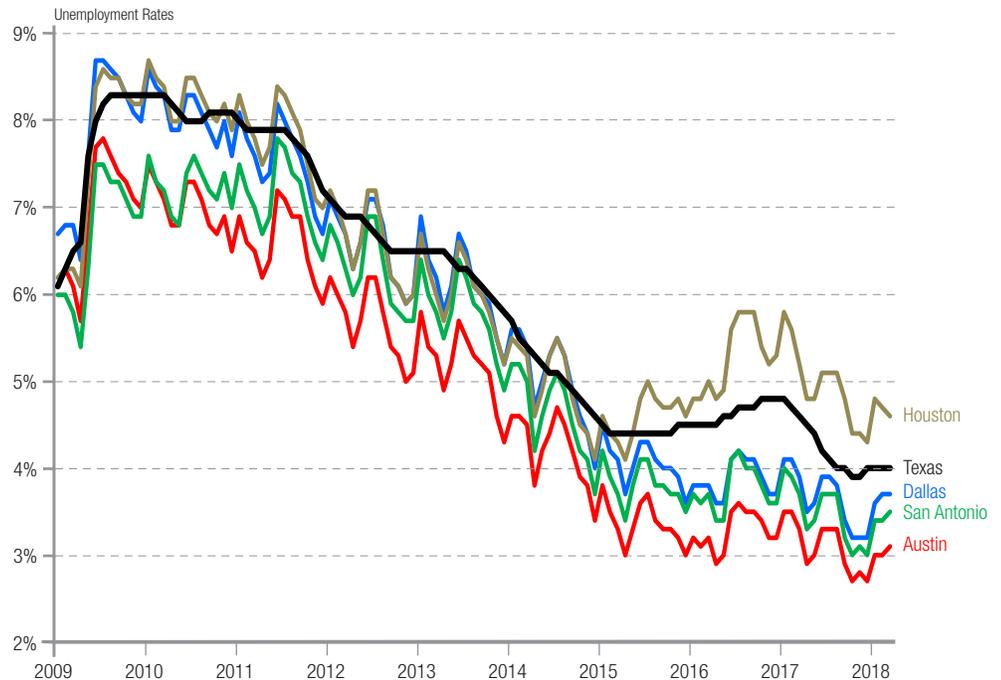
Labor Markets Tighten in Texas and its Biggest Major Metropolitan Areas

Texas unemployment rates have been falling for nearly a decade. For the state as a whole, the share of the labor force looking for work fell from a high of 8.3 percent in 2009—during a nationwide recession—to 4 percent in early 2018.

Three of the state's major metropolitan areas had similar declines. The Dallas-Fort Worth region went from 8.7 percent to 3.7 percent, San Antonio from 7.5 percent to 3.5 percent and Austin from 7.8 percent to 3.1 percent.

The Houston area's unemployment rate fell in line with the rest of the state from 2009 through 2015. Then oil prices dropped by about 50 percent, and Houston saw its jobless rate jump up to 5.8 percent before declining to 4.6 percent.

With the Texas labor market tightening since 2009, some of the state's key industries are reporting labor shortages.



ABOUT THE TEXAS ECONOMY AND THE O'NEIL CENTER

The Texas Economy is an electronic publication of the William J. O'Neil Center for Global Markets and Freedom, a research institute in the SMU Cox School of Business.

The center was founded in 2008 with an initial grant from William J. O'Neil, a 1955 SMU business school graduate, and his wife Fay C. O'Neil. Its broad mission is the study of why some economies prosper and others do poorly, focusing on two critical issues for the 21st Century economic environment—globalization and economic freedom.

The center's programs promote understanding of how capitalism works among the general public, policy makers, business managers and the next generation of business leaders. To these ends, the O'Neil Center teaches SMU Cox students, conducts economic research, publishes economic reports, sponsors conferences and educates the public through the media and speeches.

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