COMMERCIAL PROPERTY
EXECUTIVE™

RAISE-ing Red Flags: A Self-Defeating Immigration Plan

Hugh F. Kelly

September 11, 2017

Somewhere in Washington, D.C., there must be a hidden office with a frosted glass window on the door that reads, “The Department of Really Dumb Ideas.” Over the years, both major U.S. political parties have taken long-term leases on that space—often at the same time.

So it is in a purely non-partisan spirit that we focus this month on a proposal that history teaches us will inflict unnecessary damage on commercial real estate and the economy.

The bill in question is the Reforming American Immigration for Strong Employment Act, or RAISE Act for short. Sponsored by Sen. Tom Cotton (R-Ala.) and Sen. David Purdue (R-Ga.), and backed by President Trump, it indulges the Washington penchant for uplifting acronyms that paper over worse-than-dubious policy prescriptions.

A central provision of the legislation would cut the number of green cards issued by the government from 1.1 million to 500,000 annually. In doing so, the RAISE Act would extend restrictions beyond the flow of undocumented workers to limiting legal immigration.

Proponents stress the putative impact of low-cost immigrant labor on wages for lower-skilled U.S.-born workers. Moreover, the bill seeks to recast immigration policy to apply a so-called “merit-based” points system favoring highly educated, English-speaking, and already affluent candidates.

DEBUNKED CLAIMS

But in a remarkable feat for such a far-reaching proposal, the RAISE Act has managed to earn a thumbs-down from across the ideological spectrum. An analysis by Alex Nowrasteh of the conservative-leaning Cato Institute debunks the claim of a positive effect on wages, noting that the current system is actually quite effective in matching immigrant skills to U.S. economic needs.

Arguments by the RAISE Act’s backers that the “family-based green card” process compares negatively to Australian and Canadian “skills-based” selection run afoul of the facts, too. Family-based immigrants make up 0.21 percent of our population base, a smaller group than either Australia (0.26 percent) or Canada (0.23 percent).

From the left, the National Immigration Law Center argues that the RAISE Act “inaccurately suggests less legal immigration means more jobs for American workers.”

Importantly, the technology industry—which has long coveted larger immigration volumes from the STEM (science, technology, engineering, and mathematics) skill set— maintains that RAISE "would severely harm the economy and actually depress wages for Americans."

At this point, you may still be asking: What does any of this have to do with real estate? A lot, it turns out.

CONNECTING THE DOTS

Let's start with a fundamental dilemma that will face the U.S. in the coming decades: the demographics-driven labor shortage.

As long ago as 2002, projections showed that the number of workers would drop significantly in the current decade, followed by an even sharper drop in the 2020s. Those estimates showed that the labor force would keep growing more slowly through 2050 than it had at any time since before the Baby Boomers hit the job market in the 1960s.

The saving grace for the U.S. economy was the countervailing growth in the global labor supply, according to studies cited by the Boston Fed. The Immigration and Naturalization Act of 1965, which the RAISE Act seeks to undo, enabled the U.S. to supplement demographic "natural increase" (the surplus of births over deaths) to a degree unmatched by our major competitors, which maintained far more severe exclusions.

So here's where we start to see the problem. GDP is tied to growth in the number of workers and their productivity, but the RAISE Act would sharply limit potential GDP growth. That spells trouble for all forms of real estate demand.

SHRINKING POOLS

The RAISE Act's dampening effect would worsen already constrained labor conditions. As of August, the headline unemployment rate stood at 4.3 percent. The more inclusive U-6 rate, often considered a better indicator because it factors in underemployed and discouraged workers, was 8.6 percent, down from 9.7 percent a year ago.

For commercial real estate, these trends have wide-ranging consequences. Developers have been raising red flags since mid-2016 about the shortage of construction workers. Likewise, the agricultural sector—by the way, one of our strongest in terms of the international balance of trade—depends upon robust immigration to manage harvests and get product to market. The skills "meritocracy" of the RAISE Act is unlikely to help these sectors at all.

Nor is it likely to help one of industrial real estate's principal sources of demand— e-commerce. On Aug. 2, Amazon held job fairs across the country with hopes of a big haul: 50,000 hires for picking, packing, and shipping jobs at its fulfillment centers. The positions come with medical benefits and tuition prepayment assistance.

Those perks are vital, as one challenge of the labor shortage is to show new recruits that an entry-level job is not a dead end, but the first rung on the ladder of advancement. Fields where Amazon will pre-pay 95 percent of tuition include such high-demand areas as aircraft mechanics, computer-aided design, machine tool technology, and nursing.

As for the RAISE Act, we've seen this movie before, and it never ends well. Efforts to clamp down on legal immigration persist in bubbling up every couple of generations—the Chinese

Exclusion Act (1882), the National Origins Quota (1924) and the McCarren-Walter Act (1954). History always proves these measures to be economically debilitating as well as morally embarrassing. This is no time to forget that history, nor to repeat its mistakes.