



# SLOWER IMMIGRATION AND RISING LABOR COSTS

Based on a variety of surveys, the number one challenge facing contractors in the United States is an ongoing worker shortage.

JOSEPH NATARELLI AND ANIRBAN BASU

**A**t some point over the last decade, the United States, which is a nation comprised almost exclusive of immigrants and their descendants, drastically altered its policymaking toward those who want to join the country. In particular, flows of legal immigrants have been broadly suppressed, helping to explain why, during the summer of 2022, there were more than 11 million available, unfilled jobs — or about two job openings for every unemployed U.S. citizen.<sup>1</sup> As of July 2022, there were 375,000 available, unfilled construction jobs, up from 337,000 just 1 year earlier.<sup>2</sup>

To the extent that contractors support faster in-migration of legal immigrants — particularly those with skills as carpenters, electricians, pipefitters, glaziers, roofers, and heating and air conditioning equipment specialists — there is little that can be done other than to lobby national elected officials. Given uncertainty regarding effectiveness of such advocacy, it may make more sense

to focus on the existing workforce and determine the extent to which more skilled construction workers can be produced from people already in the country.

## Birth rates and other demographic factors

Beyond the challenges of establishing an optimal immigration policy, U.S. citizens have had difficulty producing babies in recent decades. According to World Bank data — a treasure trove of information regarding global birth rates — the total fertility rate of the United States peaked in 1960 at 3.6, which admittedly was the first year for which such data were collected (Exhibit 1).<sup>3</sup> Presumably, fertility was even greater prior to 1960, but it is difficult to know with any precision.

What is easy to understand is that ever since 1960, fertility has generally been trending lower. According to the World Bank, the fertility rate “represents the

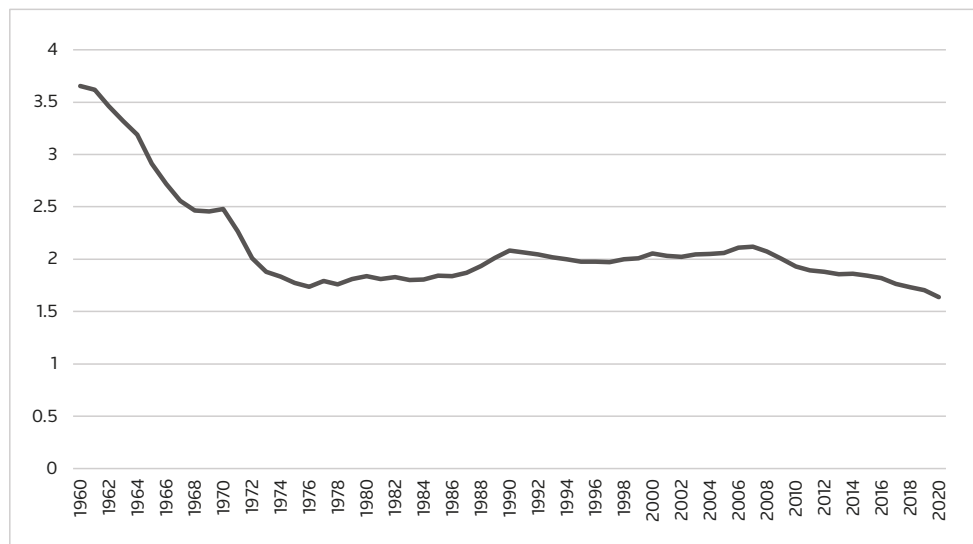
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**EXHIBIT 1**

U.S. Total Fertility Rate, 1960–2020



Source: World Bank

number of children that would be born to a woman if she were to live to the end of her childbearing years and bear children in accordance with current age-specific fertility rates.”<sup>4</sup> By 1976, fertility had dipped to 1.7, which is below the replacement rate of 2.1.<sup>5</sup> There was a brief period during the mid-1980s during which fertility began to edge higher, largely because baby boomers had reached prime household formation age. By 1990, the rate had risen to 2.1.<sup>6</sup>

There was then a period during the initial decade of the new millennium — coinciding with a housing boom and the post-September 11 period — that saw the fertility rate return to 2.1 in 2007 and 2008. However, ever since the Great Recession, fertility has been diving in the United States, and by 2020, it was down to 1.6 children per woman of childbearing age.<sup>7</sup>

Still, from a workforce perspective, this did not appear especially problematic for decades. While it is true that one cannot simply birth a 20- or 30-something, legal immigration is virtually the same thing. Through immigration, the United States can add to the ranks of its workforce, often by cherry-picking the best and the brightest engineers, mathematicians, or biologists. Moreover, another society paid for the individual to be educated/trained, which means

that the United States has an opportunity to free ride on the human capital investments of others. It may not seem quite fair, but as a free society able to accommodate people from virtually every conceivable cultural background, the United States has an opportunity to import massive quantities of human capital, thereby driving household formation, workforce growth, tax base expansion, and entrepreneurship.

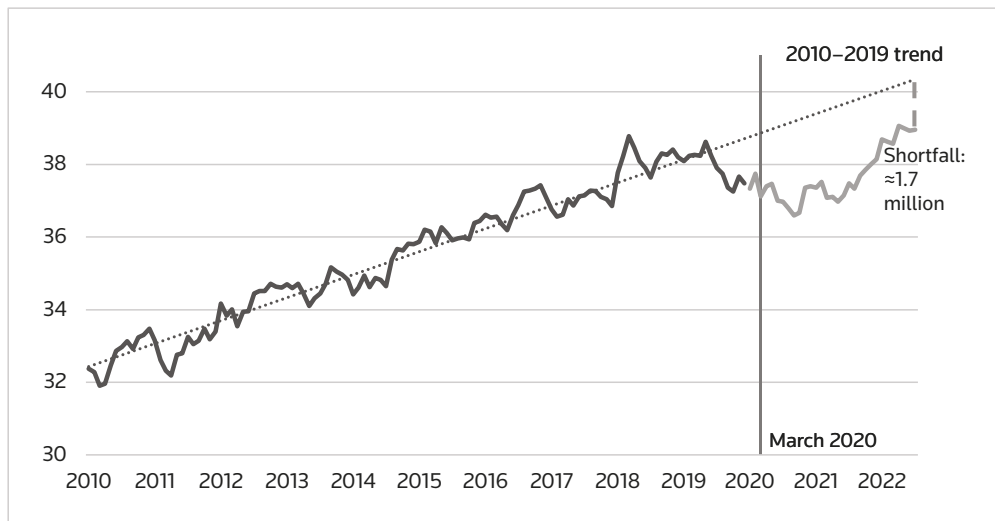
### Immigration and its discontents

Alas, operating in a democratic context, as pleasant as it might be, is never particularly straightforward. Public sentiment regarding immigration has fluctuated over past decades. Gallup surveys have asked respondents their opinions, particularly about whether the number of people coming to the country should increase, decrease, or remain the same.

Between 1965 and 1995, the portion of respondents who felt the number of immigrants in the United States should increase was roughly 7 percent.<sup>8</sup> However, then came a massive tech boom associated with a lack of workers in IT. The federal government responded by ramping up legal immigration, as part of reflecting of shifting attitudes toward immigration and workforce devel-

**EXHIBIT 2**

Foreign-Born Population, 18–65 Years (Millions)



Source: U.S. Bureau of Labor Statistics/U.S. Census Bureau, Current Population Survey

opment. After two decades of more favorable attitudes toward immigration, by mid-2020, support for faster immigration peaked at 34 percent.<sup>9</sup> That may have been partially a reaction to anti-immigrant rhetoric emerging from Washington, DC. Still, by July 2022, the proportion favorably inclined toward faster immigration had dipped to 27 percent, while the percentage of people who thought it should decline had increased from 28 percent in 2020 to 38 percent in the most recent poll.<sup>10</sup>

Sentiment aside, Exhibit 2 reflects what has actually transpired. Between COVID-19, the gaining of the immigrant population, and slower legal immigration, the foreign-born population of working age has declined. By earlier this year, there were 1.7 million fewer foreign-born people of likely working age than there would have been if preexisting trends had persisted from 2019 onward.

## Retirement

Not only has the flow of foreign-born workers been disrupted, but the ongoing aging of baby boomers has produced outsized rates of retirement. This has been especially problematic for contractors, because the average age of construction

workers, including skilled construction workers, is quite high.

According to Build Your Future, nearly 3 out of every 10 construction workers will retire by 2026.<sup>11</sup> By the beginning of the next decade, a little more than 40 percent of current workers will have disappeared from the industry.<sup>12</sup> Squeezed by a lack of worker inflow and an excess of outflow, contractors have predictably been faced with persistent worker shortages and rapid increases in compensation costs. By causing a large number of baby boomers to retire prematurely, the pandemic did not help — it accelerated construction worker exit.

However, these issues easily predated the pandemic. A 2018 Construction Dive article pointed out the fact that during the period leading up to the pandemic, construction had experienced an increase in the share of immigrant workers. “The increase in the industry’s share of immigrants is largely due to a lack of U.S.-born workers returning to construction after the Great Recession.”<sup>13</sup> By 2018, the share of nonnative construction workers stood at 42 percent in California, 41 percent in Texas, 37 percent in New York, and 35 percent in Florida.<sup>14</sup>

The construction trades associated with the greater share of immigrant workers at

that time were plasterers and stucco masons (54 percent); drywall installers, ceiling tile installers, and tapers (49 percent); painters and paperhangers (48 percent); carpet, floor, and tile installers and finishers (46 percent); roofers (45 percent); and brick masons, block masons, stonemasons, and reinforcing iron and rebar workers (39 percent).<sup>15</sup>

As always, there are silver linings. One relates to student debt, which is a subject of intense recent focus. Even with the federal government handing out student debt relief, going to college remains an expensive proposition. Moreover, many graduates are employed in jobs that do not require college degrees. In recent years, about one in three college graduates had a job that required a high school degree or less. Thousands of bartenders, parking lot attendants, and drivers possess bachelor's degrees, according to Department of Labor data.<sup>16</sup>

Enter Generation Z — while many refer to millennials as representative of younger workers, certain members of this generation are approaching their mid-40s. According to the Pew Research Center, this generation consists of people born between 1997 and 2012. Hence, these are the youngest members of today's workforce, with the oldest people in this group turning 25 in 2022; the youngest remain in school, with some still in elementary grades.<sup>17</sup>

Gen Z has grown up during the student debt crisis. Survey data indicate that many members are concerned about taking on student debt, especially at a time of economic uncertainty. Many watched their parents struggle during the Great Recession, with a large number observing their families lose newly purchased homes.

While a small fraction of Gen Z members are immigrants, they are diverse. According to the Pew report, non-Hispanic Whites comprise a slender majority of 52 percent. Hispanics make up 25 percent of Gen Z.<sup>18</sup> Together, Black and Asian people comprise 20 percent.<sup>19</sup> However, only a small proportion (6 percent) are foreign born, although 22 percent have at least one immigrant parent, compared with 14 percent of millennials.<sup>20</sup>

Given concerns regarding student debt and uncertain futures, many members of Gen Z (population 69 million) are likely to

be open to the possibility of identifying pathways to prosperity that do not involve obtaining a college degree. However, these are the children of a very educated generation (Generation X) and accordingly will likely be pushed toward college by family members. It is therefore important that the construction trades make themselves known to Gen Z, especially with respect to those who are still in in grades pre-K-12.

### Japan: A case study

A quick visit to another country already dealing with these issues might supply the U.S. construction industry with some guidance in coming years. Japan has had problems with declining birth rates for several decades, and this has directly impacted that nation's construction industry. According to one study, Japan's construction workforce peaked at 6.85 million workers in 1997.<sup>21</sup> That number has since fallen, trending alongside the nation's declining birth rates. By 2018, the number of construction workers had dipped to 5.03 million, which represented an astonishing 26.6 percent decline.<sup>22</sup>

Japan is also dealing with an aging workforce, with the bulk of experienced workers nearing retirement. According to one estimate, by the middle of the current decade, there will be a shortage of skilled workers totaling 1.3 million people.<sup>23</sup> Digging even deeper into the data reveals an even grimmer trend: According to ISI Emerging Markets Group, year-over-year labor productivity growth in Japan was negative in practically every quarter between 2018 up to the start of the pandemic.<sup>24</sup>

One big difference between the United States and Japan is their respective stances toward immigration. According to one estimate, only 2.0 percent of Japan's total population was made up of immigrants in 2022.<sup>25</sup> By comparison, immigrants made up 13.7 percent of the U.S. population in 2019.<sup>26</sup>

### Finding and training the next generation

Fortunately, systems and institutions exist that allow young people to enter skilled construction trades in the United States through apprenticeship programs or two-



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year college degrees. Still, the red-hot job market in the United States, combined with pandemic-era dynamics, has rendered enrollment low. According to an NPR article from March 2022, enrollment at 2-year colleges is down by 750,000 students from pre-pandemic levels.<sup>27</sup> The one exception, however, is among skilled trade programs. The data show that in 2021, the number of undergraduates earning construction trade degrees was up 5 percent compared with 2019.<sup>28</sup> HVAC and automotive repair were among those listed as popular choices.

Contractors are already aware of these potential workers. The article notes that instructors at technical colleges are fielding phone calls from regional companies, asking if any of the students are capable of working.<sup>29</sup> The rise in popularity of these degrees coincides with an aversion to amassing student debt. Additionally, these degrees offer a shorter path to a more stable career. The high demand from contractors for workers could also be one of the reasons why so many people who enter apprenticeship programs never finish them.

The construction industry can also take advantage of the current administration's infrastructure initiatives. This past June, the president launched the Talent Pipeline Challenge to find and develop workers who will help "rebuild our infrastructure and supply chains here at home."<sup>30</sup> In a statement released by the White House, the initiative encourages workforce development in three critical sectors: broadband Internet, construction, and electric vehicle charging infrastructure. In particular, it calls for employers to work with existing training providers — such as apprenticeship programs and community colleges — and emphasizes the importance of bringing underserved workers, women, and other minorities into these industries.<sup>31</sup>

## Looking ahead

Based on a variety of surveys, the number one challenge facing contractors in the United States is an ongoing worker shortage. That will not change anytime soon. With the working age population no longer expanding rapidly in the United States, the construction industry will have to attract a much larger share of the U.S. workforce

to enter the skilled construction trades. Still, competition for workers is intense, with many entry-level jobs offering competition in excess of \$20 per hour, whittling away the historic compensation advantages construction has had relative to many service-providing segments. ■

## NOTES

<sup>1</sup> "Job openings: Total nonfarm," St. Louis Federal Reserve Economic Data. Available at: <https://fred.stlouisfed.org/series/JTSJOL>.

<sup>2</sup> "Job openings: Construction," St. Louis Federal Reserve Economic Data. Available at: <https://fred.stlouisfed.org/series/JTS2300JOL>.

<sup>3</sup> "Fertility rate, total for the United States," St. Louis Federal Reserve Economic Data. Available at: <https://fred.stlouisfed.org/series/SPDYNTFRTINUSA>.

<sup>4</sup> *Ibid.*

<sup>5</sup> *Op. cit.* note 3.

<sup>6</sup> *Ibid.*

<sup>7</sup> *Op. cit.* note 3.

<sup>8</sup> "Immigration," Gallup. Available at: <https://news.gallup.com/poll/1660/immigration.aspx>.

<sup>9</sup> *Ibid.*

<sup>10</sup> *Op. cit.* note 8.

<sup>11</sup> "What will happen when the baby boomers retire?" Build your Future (Nov 21, 2018). Available at: <https://byf.org/what-will-happen-when-the-baby-boomers-retire/>.

<sup>12</sup> *Ibid.*

<sup>13</sup> Slowey, K., "Percentage of immigrant construction workers on the rise," Construction Dive (Jan 26, 2018). Available at: <https://www.constructiondive.com/news/percentage-of-immigrant-construction-workers-on-the-rise/515657/>.

<sup>14</sup> *Ibid.*

<sup>15</sup> *Op. cit.* note 13.

<sup>16</sup> Vedder, R., "Twelve inconvenient truths about American higher education," Center for College Affordability and Productivity (Mar 2012). Available at: <https://files.eric.ed.gov/fulltext/ED541358.pdf>.

<sup>17</sup> Parker, K. and Igielnik, R., "On the cusp of adulthood and facing an uncertain future: What we know about Gen Z so far," Pew Research Center. Available at: <https://www.impactlab.com/2020/06/09/on-the-cusp-of-adulthood-and-facing-an-uncertain-future-what-we-know-about-gen-z-so-far/>.

<sup>18</sup> *Ibid.*

<sup>19</sup> *Op. cit.* note 17.

<sup>20</sup> *Ibid.*

<sup>21</sup> "A mismatch between supply and demand due to a shrinking labor force. The construction industry in Japan is facing a crisis now," Landlog. Available at: <https://www.landlog.info/en/about2/>.

<sup>22</sup> *Ibid.*

<sup>23</sup> Duong, S. and Lee, J.Y., "Can foreign workers be the key to unlock Japan's labor shortages?" Amro (June 4, 2019) (blog). Available at: <https://www.amro-asia.org/can-foreign-workers-be-the-key-to-unlock-japans-labor-shortages/>.

<sup>24</sup> "Japan labour productivity growth," CEIC. Available at: <https://www.ceicdata.com/en/indicator/japan/labour-productivity-growth>.

<sup>25</sup> "Population estimates/monthly report," E-stat: Portal Site of Official Statistics of Japan. Available at: [https://www.e-stat.go.jp/en/stat-search/files?page=1&query=%E4%BA%BA%E5%8F%A3&layout=dataset&stat\\_infid=000032106091](https://www.e-stat.go.jp/en/stat-search/files?page=1&query=%E4%BA%BA%E5%8F%A3&layout=dataset&stat_infid=000032106091).

<sup>26</sup> Esterline, C. and Batalova, J., "Frequently requested statistics on immigrants and immigration in the United States," Migration Policy Institute (Mar 17, 2022). Available at: <https://www.migrationpolicy.org/article/frequently-requested-statistics-immigrants-and-immigration-united-states>.

<sup>27</sup> Steinberg, A. and Nadworny, E., "Community college enrollment is down, but skilled-trades programs are booming," NPR (Mar 28, 2022). Available at: <https://www.npr.org/2022/03/28/1086454046/2-year-skilled-trades-programs-booming>.

<sup>28</sup> *Ibid.*

<sup>29</sup> *Op. cit.* note 27.

<sup>30</sup> "FACT SHEET: The Biden-'Harris administration launches the talent pipeline challenge: Supporting employer investments in equitable workforce development for infrastructure jobs," The White House (June 17, 2022) (press release). Available at: <https://www.whitehouse.gov/briefing-room/statements-releases/2022/06/17/fact-sheet-the-biden-harris-administration-launches-the-talent-pipeline-challenge-supporting-employer-investments-in-equitable-workforce-development-for-infrastructure-jobs/>.

<sup>31</sup> *Ibid.*