

A Call for New Research in the Area of Labor

Posted by Julie Topoleski on July 20, 2023

As part of the legislative process, the Congressional Budget Office supplies the Congress with cost estimates for legislation, economic and budget projections, and other economic assessments. Information from the research community is an important element of CBO's analyses. This is the fourth in a series of blog posts discussing research that would enhance the quality of the information that CBO uses in its work. (Earlier posts in the series discussed the need for new research in the areas of energy and the environment, finance, and health.) Please send comments to communications@cbo.gov.

CBO regularly provides the Congress with information about the effects of proposed policies on income support programs and outcomes in the labor market (for example, CBO 2021a, CBO 2021b, CBO 2021c). The agency also uses that type of information to estimate the budgetary and (when relevant) economic effects of legislative proposals (for example, CBO 2021d) and to incorporate such effects into its baseline projections for legislation that is enacted. To help inform such work, CBO is on the lookout for new research on various topics in the area of labor, including immigration and child care. CBO is currently working on those topics, and there are significant gaps in the relevant research literature.

CBO uses a combination of approaches to estimate changes in economic variables stemming from changes in immigration policies. The agency uses its macroeconomic models to estimate changes in the income earned by capital, the rate of return on capital (and therefore the interest rates on government debt), and the differences in wages for workers with different skills. Other economic effects, such as changes in the productivity of labor and capital, are incorporated by adjusting total factor productivity on the basis of existing empirical evidence.

CBO last analyzed a comprehensive immigration reform bill in 2013 (CBO 2013). For that analysis, the agency projected the legislation's direct effects on the size of the U.S. population, employment, and taxable compensation and incorporated those projections into its cost estimate.

For its analysis of legislative proposals related to child care, CBO relies on published empirical evidence and experts' opinions to estimate how subsidies affect the use of care, as well as changes in the supply of labor by parents. Some of those experts are academic researchers, state administrators of child care subsidies, and child care providers. CBO has analyzed proposals to increase federal subsidies for paid child care for children ages 5 and younger. If such subsidies were significantly increased, CBO expects that some parents who currently do not use paid child care or who use unpaid care would begin using paid care. CBO's models assess how much people's resulting choices about child care would change, accounting for the responses of child care providers and the availability of care.

How Does Immigration Affect Productivity?

Changes to immigration law can affect productivity in the economy, which can, in turn, affect the federal budget. Effects on productivity depend in part on how the changes affect the education, work experience, and other skills of immigrants and on how those immigrants affect other workers, the allocation of capital, and technological progress. CBO's analysis of immigration policy could be enhanced by additional research that estimates the effects of immigration on productivity, the timing of those effects, and how they vary depending on the skill composition of immigrants.

Relatively few studies have estimated the effect of immigration on total factor productivity (Aleksynska and Tritah 2015 (<https://doi.org/10.1111/ecin.12141>); Ortega and Peri 2014a (<https://doi.org/10.1016/j.jinteco.2013.11.008>), 2014b (<https://tinyurl.com/3fauxdp5>), and 2009 (<http://www.nber.org/papers/w14833>)), and only one has focused specifically on the United States (Peri 2012 (https://doi.org/10.1162/REST_a_00137)). CBO primarily uses a modified version of that one study's framework to estimate how productivity would change as the result of policy-specific effects that depend in part on the education of immigrants. CBO also considers evidence about the ways that immigration could affect productivity, including through skill complementarity (Cattaneo, Fiorio, and Peri 2015 (<https://www.jstor.org/stable/24735981>); Peri and Sparber 2009 (<https://doi.org/10.1257/app.1.3.135>)), innovation and patenting (Bernstein et al. 2022 (<http://www.nber.org/papers/w30797>); Arkolakis, Lee, and Peters 2020 (<https://tinyurl.com/2p8wyec>); Hunt and Gauthier-Loiselle 2010 (<https://doi.org/10.1257/mac.2.2.31>); Kerr and Lincoln 2010 (<https://doi.org/10.1086/651934>)), birthplace diversity (Alesina, Harnoss, and Rapoport 2016 (<https://doi.org/10.1007/s10887-016-9127-6>); Ager and Brückner 2013 (<https://doi.org/10.1016/j.eurocorev.2013.07.011>); Ottaviano and Peri 2006 (<https://doi.org/10.1093/jeg/lbi002>)), and entrepreneurship (Azoulay et al. 2022 (<https://doi.org/10.1257/aeri.20200588>), Kerr and Kerr 2020 (<http://www.nber.org/papers/w27040>), Fairlie and Lofstrom 2015 (<https://doi.org/10.1016/B978-0-444-53768-3.00017-5>)). The agency's estimates are consistent with that evidence.

Further research on two aspects of immigration's effect on productivity could enhance CBO's analysis. First, more information about how the effect of immigration on productivity varies depending on the skill composition of immigrants could inform CBO's estimates of the effects of policies that would admit immigrants with differing characteristics. For example, the Congress may be interested in the varying effects of low-skilled and high-skilled immigration. Second, evidence about the timing of immigration's effects on productivity could also inform CBO's modeling of immigration's economic effects.

How Would Changes in Federal Funding for Child Care Affect Families With Children and the Child Care Industry?

Changes in federal funding for child care and early childhood education would affect families' choices in the labor market as well as the demand for and supply of child care. Research on the effects of federal subsidies on those outcomes could enhance CBO's analyses of the subsidies' economic, distributional, and budgetary effects.

Researchers have studied how changes in the availability of child care affect parents' involvement in the labor force (Li 2020 (<https://doi.org/10.1002/soej.12459>), Cascio and Schanzenbach 2013 (<https://tinyurl.com/3zzfvjuh>), Fitzpatrick 2010 (<https://doi.org/10.1086/648666>)). Studies of subsidized child care have focused on low-income families (Michalopoulos 2010 (<https://tinyurl.com/xfmknyjm>), Berger and Black 1992 (<http://www.jstor.org/stable/2109377>)); less work has been done to demonstrate how those subsidies affect the labor supply of middle- or higher-income families.

Also, little work has been done on the take-up rates of child care subsidies among eligible families, families' shifting between unpaid care and paid care, or the ways that large shifts in demand would affect the cost of care for families (Borowsky et al. 2022 (<http://www.nber.org/papers/w30140>)).

More research that provided evidence about the effects of subsidies on the supply of child care (Blau 1993 (<https://doi.org/10.1086/298299>)) could also enhance CBO's analyses. For example, studies of the wage elasticity of child care workers and the speed at which the supply of child care (both the physical infrastructure and labor supply) would increase in response to a shift in demand could be useful in estimating the budgetary and economic effects of various policy proposals. Research on states' involvement in child care (GAO 2023 (<https://www.gao.gov/products/gao-23-106073>)) also could enhance CBO's analyses. For instance, such research could shed light on how states used the additional federal child care funding they received during the coronavirus pandemic, as well as their responses when that funding expired.

Julie Topoleski is CBO's Director of Labor, Income Security, and Long-Term Analysis. This blog post includes contributions from the following CBO staff: Scott Craver, Daniel Crown, Molly Dahl, Elizabeth Cove Delisle, Justin Falk, Ann E. Futrell, Rebecca Heller, Jeffrey Kling, Susanne Mehlman, Xiaotong Niu, and Emily Stern.