

# MIGRATION SHOCKS AS LABOR SUPPLY CONSTRAINTS: THE INFLATIONARY CONSEQUENCES OF RESTRICTED WORKFORCE FLOWS

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2ND EUROPEAN WORKSHOP ON THE MACROECONOMIC IMPLICATIONS OF MIGRATION

27 June 2025



Did pandemic-related immigration restrictions contribute to U.S inflation?

1. Provide novel evidence on an understudied topic (the link between labor supply/immigration restrictions and inflation)
2. Rich dataset construction, combining BLS CPI-U, visa issuance records, ACS workforce composition and JOLTS data
3. Novel and compelling identification strategy, based on pre-pandemic foreign born worker shares and visa issuance shortfalls

Main findings:

- 1 pp increase in exposure → 0.5-0.9 pp increase in inflation
- Mechanisms: more exposed sector-regions experience tighter labor markets (upward pressure on wages and prices)

## Potential endogeneity concerns related to **metro area-sector specific shocks**

- **Aggregate demand:** metro-sectors with higher foreign-born labor shares may have experienced stronger post-pandemic demand rebounds (e.g. from targeted stimulus or sector-specific reopening booms)
- **Supply chain disruptions:** metro-sectors with high foreign-born labor exposure may have faced more severe input or logistic bottlenecks
- **Energy price shocks:** metro-sectors with high foreign-born labor may have faced greater energy cost pass-through (e.g., due to fuel-intensive production or regional price variation)

Additional identification checks could include

1. **Balance checks:** examine whether the visa shortfall exposure variable correlates with pre-pandemic metro-sector characteristics beyond inflation (e.g., capital intensity, employment growth, energy use etc.)
2. **Additional controls:** control for sector specific growth, energy use, capital intensity to isolate the labor supply channel
3. **Heterogeneity analysis / “Placebo” tests**
  - High vs. low demand sensitivity
  - High vs low energy intensive sectors
  - Tradable vs non-tradable

### Potential issues in shift-share treatment variable

1. Foreign born worker shares are from 2010 while the shock occurred in 2020-2021
  - Labor market composition may have changed due to internal migration or sectoral shifts
2. Visa shortfall are computed relative to pre-pandemic averages
  - Pre-trends in visa issuances
3. Unauthorized migration
  - Could this offset legal labor shortages? Descriptive evidence on unauthorized migration would help

To strengthen the interpretation of labor supply constraints consider

1. Analyze wage response
  - $\uparrow$  labor market tightness  $\rightarrow$   $\uparrow$  **wages**  $\rightarrow$   $\uparrow$  prices
2. Show evidence on limited **substitutability** between foreign-born and native workers
  - Do natives reallocate in high foreign-born sectors post 2020?
3. Discuss theoretical counter-effects: immigration restrictions could reduce local **aggregate demand**, putting downward pressure on prices
  - Relevant for the interpretation of the estimates as net effects
  - Potentially useful to explain heterogeneity patterns across sectors

1. 0.5-0.9 pp inflation increase due to 1 pp increase in visa shortfall is sizable
  - Back-of-the-envelope calculation on contribution to national CPI would add perspective
  
2. Domestic workers might respond endogenously to labor shortages, affecting the persistence of labor market shortages
  - Document migration substitution of domestic workers
  
3. Heterogeneity by type of visa (high skills, low skills, temporary workers, etc.)

THANK YOU

