

Elana Mater

immigration's effect on our poorest workers

One of the concerns that has largely framed the current national debate on immigration is how immigrants affect low-wage Americans. If the facts of the immigration debate were as straightforward as Econ 101, there would be no debate on this point among economists. Unfortunately, as shown by different researchers, factors affecting immigrants' impact on the wages of low-skilled native-born workers are far more complex than either the concept of supply-and-demand or the rhetoric surrounding the debate explain.

Our current dilemma began when pressures created by the civil rights movement led to the passage of the Immigration Reform Act of 1965. The act abolished the national-origin quotas established in 1924, in response to worries about increasing immigration from Eastern Europe. The act allowed our official population of foreign-born workers to increase from 5.3 percent in 1970 to 14.7 percent in 2005.

During the '70s, most economists viewed immigration as a positive force because immigrants' wages rose to the level of native workers'. This notion dramatically changed in the '80s, probably for two reasons. First, U.S. wages of low-skilled workers declined in the '80s and '90s, and economists attributed this change to competition from immigrants. And second, after the passage of the 1965 legislation, the percentage of non-European immigrants began to grow—and these Asian and Latino immigrants did not assimilate as easily as immigrants from Eastern Europe.

In the new millennium, because of a growing body of new data, economists' perceptions about immigration have changed again; and those who believe immigrants significantly reduce the wages of low-skilled native-born workers are back in the minority; the most well known of these is George Borjas.

George Borjas

Borjas is a professor of economics and social policy at the John F. Kennedy School of Government at Harvard University. Like most economists today, Borjas believes that immigration benefits the American economy in the way international trade does—consumers pay less for goods and services and firms pay less for labor. Borjas, however, has been arguing for decades

that these benefits come at a cost to poorer Americans, especially African Americans who compete with immigrants for jobs; and many economists agree. National studies by the National Academy of Sciences, the U.S. Department of Labor, and the Center for Immigration Studies have, indeed, found immigration in the U.S. to have adverse effects on the wages of native-born workers who directly compete with immigrants. Where Borjas deviates from most of his colleagues is on how much he believes native-born workers actually lose to competition from immigrants.

David Card

The classic natural experiment (discussed in Sockeye's 10th Anniversary issue) that challenged Borjas and those in his camp was the Marielitos in Miami study conducted by University of California, Berkeley economist David Card. In this cross-city study, Card found that after an influx of 125,000 Cubans, Miami wages and unemployment actually fared better than those in the control cities of Tampa, Atlanta, Houston and Los Angeles. "Better" meant higher wages and a slower increase in the unemployment rate compared to Card's control cities. Overall, Card concluded, though he could not explain why, that the Marielitos had no adverse effect on the wages and employment of low-skilled workers. Card's Marielitos study is just one of the many cross-city studies that find no negative effects of immigration on low-skilled native-born workers' wages and employment opportunities.

Borjas' Dispersion Theory

Borjas argues that Card's and others cross-city studies are misleading for two reasons. First, immigrants don't randomly migrate but are pulled toward cities with thriving economies and a large number of job opportunities. Borjas argues that this selective migration to prospering cities automatically skews outcomes in cross-city studies. And second, he points out, native-born workers don't sit idly by and watch immigrants lower wages or take jobs. Such low-wage earners respond by migrating to areas with less competition, thereby dispersing to other areas job competition and downward wage pressures.

outside the forum

Complicating the picture, firms may migrate to the immigrant-rich areas in search of low-wage employees—lessening the effect of a large influx of low-skilled workers on competition. Borjas argues that the non-random movement of immigrants and native-born workers must affect U.S. labor markets at the national level; and that cross-city studies do not account for these effects.

According to Borjas, another factor largely ignored by Card and others is the educational attainment of native-born and immigrant populations. In the last 50 years, there has been a dramatic increase in the number of immigrants who are high-school dropouts. Intuitively, it makes sense that this increase may affect the least skilled group of native-born workers more than others. Borjas finds this to be true when he divides the U.S. labor market into skill levels based on educational attainment and work experience.

Camarota and Borjas

Steven Camarota, an economist from the Center for Immigration Studies, agrees with Borjas' findings that separating workers by skill levels indicates that low-skill workers (defined as workers with no more than a high school diploma) are greatly affected while higher skilled workers are not.

Both Borjas and Camarota both believe the income lost by low skilled workers masks a substantial redistribution of wealth. They both find that lower skilled migrants may improve the wages and wealth of higher skilled native-born workers.

They believe it works this way: Firms benefit because of lower wages, and relatively better-off consumers, the lower middle class, benefit from lower prices. This created wealth ends up in the hands of higher-income native-born workers who also tend to be the consumers of immigrant services. And the negative effects on low-income native-born workers are not offset by lower prices for consumer goods or a higher gross domestic product.

Significantly, when Borjas and Camarota lump all skill levels all together, they also find the same modest effects on native-born wage earners that Card does in his Marielitos study.

Giovanni Peri

Professor Giovanni Peri from the University of California, Davis, has scrutinized Borjas' methodology and his results. In a peer-reviewed study, he agrees with Borjas' overall strategy of dividing the workforce and evaluating each group individually, but Peri argues that Borjas' studies make two misguided assumptions.

First, Borjas assumes that immigrants and native-born workers of the same educational level and work experience are perfect substitutes for each other—when one immigrant is hired at a lower wage, a native-born worker is fired. Peri argues that low-skilled immigrants and native-born workers are not perfect substitutes because of their cultural and language differences.

Immigrants gravitate toward specific low-skilled jobs in fields such as a construction or agriculture. A native-born worker who speaks English can become an agricultural supervisor or construction-site manager—even without a high school diploma. In fact, this is what is observed to have happened in Israel after an influx of Russian Jews.

The second assumption Peri challenges is Borjas' assumption that immigration increases the labor supply while physical capital such as machinery and buildings remain constant. Peri observes that as immigrants enter the workforce in a growing economy, investors and entrepreneurs continually adjust their investment strategies. Extra buildings and equipment do not magically appear without more workers. More labor is required to make these capital investments. So, an immigrant entering the labor force does not automatically push out a native worker.

Peri adjusted Borjas' method to account for the factor of imperfect substitution and the increases in capital investment that come with expansion. Like Borjas, Peri initially found a 12 percent decrease in real yearly wages to low-skilled workers, but unlike Borjas and Camarota, he isolated immigration's negative effect on wages from other influences, such as technological progress, increased trade, and increased offshoring. By separating immigration from these other factors, Peri found only a 1.1 percent decrease in wages for the lowest skilled native-born workers could be correlated with low wage immigrant labor.


outside the forum

What Should We Think?

Multiple studies conducted by economists on both sides of the issue indicate that immigration, in fact, does cause a decline in the lowest-skilled workers' earnings, but do not agree on how much.

Peri believes that just looking at the correlation between total immigration and total changes in wages of low-skilled workers is misleading. When asked what we should think about his research, Peri said that the focus of the debate is in the wrong place, if the poorest in our nation are to be helped. Immigration is only a small component of the wage and job losses of the least educated sector; technological progress and globalization are much more significant depressors of wages for unskilled workers.

Instead of trying to eliminate these powerful economic forces, according to Peri, the focus should be on eliminating native-born workers from the lowest educated group by improving education and graduation rates. One way Peri suggests doing this is by allotting some of the visa fees from guest workers toward helping the least educated native-born workers climb the labor ladder. This suggestion, that we improve education for low-skilled native-born workers, is not part of the rhetoric now framing the debate.

The controversy over immigrants' effect on wages and employment is just one of the complex elements of the nationwide debate on immigration. Other thorny issues include immigrants' use of tax-funded programs, their effect on crime, and immigrants' influence on "American" culture and, of course, illegal immigration. 

“the Latino population, already the nation's largest minority group, will triple in size and will account for most of the nation's population growth”





from the
Pew Hispanic Center

U.S. Population Projections: 2005-2050 Report Materials

If current trends continue, the population of the United States will rise to 438 million in 2050, from 296 million in 2005, and 82% of the increase will be due to immigrants arriving from 2005 to 2050 and their U.S.-born descendants, according to new projections developed by the Pew Research Center.

Of the 117 million people added to the population during this period due to the effect of new immigration, 67 million will be the immigrants themselves and 50 million will be their U.S.-born children or grandchildren. Among the other key population projections:

- Nearly one in five Americans (19%) will be an immigrant in 2050, compared with one in eight (12%) in 2005. By 2025, the immigrant, or foreign born, share of the population will surpass the peak during the last great wave of immigration a century ago.
- The major role of immigration in national growth builds on the pattern of recent decades, during which immigrants and their U.S.-born children and grandchildren accounted for most population increase. Immigration's importance increased as the average number of births to U.S.-born women dropped sharply before leveling off.
- The Latino population, already the nation's largest minority group, will triple in size and will account for most of the nation's population growth from 2005 through 2050. Hispanics will make up 29% of the U.S. population in 2050, compared with 14% in 2005.
- Births in the United States will play a growing role in Hispanic and Asian population growth; as a result, a smaller proportion of both groups will be foreign-born in 2050 than is the case now.
- The non Hispanic white population will increase more slowly than other racial and ethnic groups; whites will become a minority (47%) by 2050.
- The nation's elderly population will more than double in size from 2005 through 2050, as the baby boom generation enters the traditional retirement years. The number of working age Americans and children will grow more slowly than the elderly population, and will shrink as a share of the total population.

The Center's projections are based on detailed assumptions about births, deaths and immigration levels--the three key components of population change. All these assumptions are built on recent trends. But it is important to note that these trends can change. All population projections have inherent uncertainties, especially for years further in the future, because they can be affected by changes in behavior, by new immigration policies, or by other events. Nonetheless, projections offer a starting point for understanding and analyzing the parameters of future demographic change.

The Center's report includes an analysis of the nation's future "dependency ratio"--the number of children and elderly compared with the number of working age Americans. There were 59 children and elderly people per 100 adults of working age in 2005. That will rise to 72 dependents per 100 adults of working age in 2050.

The report also offers two alternative population projections, one based on lower immigration assumptions and one based on higher immigration assumptions.