Looking (in vain) for 'Jobs Americans Won't Do'

by Edwin S. Rubenstein

When unveiling his guest work proposal a few years ago, President Bush urged Americans to "legalize the process of people doing jobs Americans won't do." Illegal immigrants, in this view, are essential to the country's economic growth.

Nothing could be further from the truth.

There are an estimated 7 million illegal aliens working in the U.S., or about 4.5 % of the civilian labor force. Certain occupations have abnormally high concentrations of illegals, for example: drywall/ceiling tile installers (27%), gardeners (26%), maids and housekeepers (22%), and construction laborers (20%).[1] Yet illegals make up only 13% of hotel industry workers, 13% of food manufacturing industry workers, 11% of workers in food preparation and serving, and 8% of workers in production.

Clearly millions of Americans are doing precisely the same jobs, and countless others *were* working in these fields before being displaced by foreign-born workers.

It's also obvious that native workers need those jobs: 19 million U.S.-born adults do not have a high school degree. Only 7.1 million of them are in the labor force, and 684,000 – nearly 10 percent of this labor force – are unemployed.[2] American workers in building cleaning and maintenance have an 11% unemployment rate, as do 13% of native construction workers and 9% of those in food preparation.

There appears to be no dearth of American workers, just wages and working conditions that sink lower with each wave of illegal aliens.

***Edwin S. Rubenstein,** President of ESR Research, has 25 years experience in business research, financial analysis, and economics journalism. Mr. Rubenstein is also an adjunct fellow at the Manhattan Institute.*

U.S. Economy Dependent on Illegals?

The share of GDP generated by the illegal alien workforce is considerably less than their numbers would suggest.

Foreign-born Hispanic workers (legal and illegal) in the U.S. less than 10 years made $321 per week in 2004, or just 55% of the median weekly wage of U.S. natives.[3] More than half – 57% – of Mexican immigrants who work in manufacturing, and 60% who work in agriculture, made less than $300 a week. If these workers are supporting a family of four, they are living below the poverty line, according to a recent Pew Hispanic Center study.

Illegals surely make less than the average immigrant. If they earn, say, 40% of what natives make, the share of GDP attributable to illegal alien workers would be a mere 1.8% (4.5% times 40%.)

Immigrants are also more likely to be out of work. Unemployment rates for foreign-born non-citizens – a category that includes legal guest workers as well as illegal immigrants – averaged 6.3% versus 5.5% for natives in 2004. Put differently, 94.5 of every 100 natives in the labor force actually work, compared to 93.7 of every 100 foreign born non-citizens.

So illegals are likely to produce less than 1.8% of GDP.

Even this estimate has to be qualified. It doesn't account for the wages lost by displaced native-born workers. And it doesn't account for the transfer payments from American taxpayers to illegals – education for their children, Medicaid and welfare for their U.S.-born children, emergency room care, etc.

Undocumented immigrant workers for less, are less likely to have medical insurance, and are often paid "off the books" They are a boon for all manner of employers, ranging from the neighborhood tree service to Walmart. Similarly, people of means spend less on nannies and other household help thanks to the presence of illegal alien workers.

But most Americans are worse off because of illegal immigrants. Each 1% rise in U.S. labor force due to immigration reduces native wages by about 0.35%, according to research by Harvard economist George Borjas.[4] It follows, then, that illegal immigrant workers reduce native wages by approximately 1.6 percent (4.5 times 0.35%). This translates to more than $90 billion in lost wages in 2005.

Unskilled natives who compete directly with illegals suffer larger wage declines – as much as 7.4% according to Borjas. In a study published by the Center for Immigration Studies Borjas concludes:

> *It is worth pointing out that these wage impacts imply sizable reductions in annual earnings. In 2000, for example, the typical native man without a high school diploma earned about $25,000 annually. This implies that immigration reduced this worker's earnings by around $1,800.*[5]

Changes in Real Wages and Foreign-born Penetration
for Selected Industries, 2003-2004

Such wage declines will grow over time, and not merely because of increased labor market penetration by illegals. A 2003 study by economists at the Atlanta Federal Reserve Bank found that immigrants who are in the country longer and who upgrade their legal status – getting a green card or similar documentation – have more of a negative impact on low-skilled native workers than do newly arrived immigrants. "This suggests that immigrants become substitutes for natives only as they spend more time in the U.S."[6]

Moreover, because illegal immigrants pay less taxes than they receive in government benefits, they increase the fiscal deficits of federal, state, and local governments. Eventually native workers will be called upon to finance those deficits with higher taxes. Implication: native workers will suffer larger reductions in after-tax income than in gross income due to illegal immigrant workers. Living standards will fall.

Displacement Varies by Occupation

I examined the relationship between foreign worker penetration (i.e., the percentage of employed workers in particular industries that are foreign-born) and wages. Foreign worker penetration was available for about 60 different industries for years 2003 and 2004.

The industry with the largest foreign-born share (38.3%) in 2004 was "Other services, private households" – a category that includes cleaning girls, nannies, gardeners, etc., while the smallest penetration (2.8%) was in "Agricultural, self-employed" – farmers who own their land. These figures reflect legal and illegal immigrant workers in each industry.

I was able to find average wages for 17 of these industries at the BLS website. (See Table at end.) The following "scatter diagram" shows, for those 17 industries, the percent change in foreign penetration on the y (vertical) axis and the percent change in real wages on the X (horizontal) axis:

As you can see, the trend line has a downward slope, indicating that industries with larger than average increases in foreign penetration had lower than average increases in real wages. In a word, the data confirm our view that immigration harms living standards of American workers.

This is a remarkable finding given the fact that only two years of data was available to me. (I do not have data on the foreign-born workforce by industry for years prior to 2003.) Over longer periods of time the impact of foreign worker penetration would be far more dramatic.

Not Everyone Agrees

When supply goes up, prices go down. This result obtains whenever demand curves are downward sloping – and the negative relationship between price and quantity demanded is perhaps the most secure principle in economics. Yet immigration enthusiasts routinely deny its relevance to the U.S. labor market.

The latest revisionism regarding the impact of immigration on wages comes to us courtesy of the National Center for Policy Analysis (NCPA), a Dallas-based libertarian think tank. Its *Daily Policy Digest* cites a highly theoretical study by Giovanni Peri of UC Davis and Gianmarco Ottaviano of the University of Bologna that claims that “immigration actually increases domestic wages.”[7]

This amazing effect can allegedly be detected, according to the authors, because “the average wage and the value of housing for U.S. residents, were positively associated across metropolitan areas with inflows of foreign-born workers.”

In other words, you find higher-earning Americans in cities where there are also lots of immigrants. Cities like Los Angeles and New York, for example.

Cities with heavy immigrant inflows may indeed exhibit higher native wages. But this happy correlation need not necessarily apply to the *national* economy. Some native-born workers will respond to the immigrant influx by moving to other, less immigrant-intensive, cities – pushing wages there down. Conversely, native-born business owners will move to immigrant gateways to exploit the cheap labor. The cross flows of labor and capital will forestall wage declines in immigrant gateways, but reduce wages in the hinterland.

Similarly, if immigrants settle in boom towns there would be a strong correlation – but no causation – between immigration, housing prices, and wages.

The pitfalls of extrapolating from local labor market trends to immigration’s national impact have been exhaustively enumerated by George Borjas. Pen and Ottaviano mention Borjas but don’t address his point.

The Peri-Ottaviano model relies heavily on capital investment to yield the economic gains it projects for immigration. This benefit allegedly occurs because businesses make additional capital investments in response to the expanded supply of workers:

> *For example, companies open new restaurants, add new factory lines or build more houses. As business expands, hiring foreign born workers to do one job may also require hiring more native-born workers with complementary skills.*[8]

Yes, immigrants must eat. They must have housing. And such capital investments inevitably increase GDP. But all capital investments are not created equal. Those that are undertaken in response to increases in the foreign born labor force are of the “capital widening” variety. They are good for GDP, good for owners of capital, but do nothing to increase income of ordinary American workers. Only increases in capital *per worker* – what economists call “capital deepening” – increases worker productivity, thereby enabling employers to pay higher wages without raising prices.

Capital deepening has transformed some industries. Automated switches have replaced most telephone operators. Cars are increasingly produced by robots guided by few workers rather than labor intensive assembly lines. Thanks to serve-yourself gas pumps, we have fewer attendants but more gas stations.

In too many industries, however, cheap immigrant labor has stifled such innovations. Southern California’s apparel industry “has fallen behind both domestic and international competitors, even some of its lowest-labor-cost competitors, in applying the array of production and communications technologies available to the industry (such as computer assisted design and electronic data interchange.)”[9]

The harvesting of fruit and vegetables in California’s Central Valley has become among the most labor-intensive activities in North America – and that won’t change if the Western Growers Association has anything to do with it.

Similarly, pre-fab, modular home building innovations have been put on hold, thanks to a construction labor pool that ranges from 31 percent foreign born (ordinary laborers) to 45 percent foreign born (plaster and stucco masons).

If the supply of foreign workers were to dry up (by, say, enforcing the immigration laws), two things would happen: wages of unskilled natives would increase, and employers would look for ways to substitute capital for these suddenly more expensive native workers. Labor scarcity would lead to labor saving technology – capital deepening – and a more productive workforce.

The end result: maybe an imperceptible hiccup in aggregate GDP – coupled with a rise in the average wage of U.S. workers. Most Americans would be better off.

NOTES

1. Jeffrey S. Passel, "Unauthorized Migrants: Numbers and Characteristics," Pew Hispanic Center, June 14, 2005. Page 26. http://finance.aol.com/usw/portfolios/view?pid=1

2. Current Population Survey, 2004. Table 4. (Unpublished statistics provided to author.)

3. Rakesh Kochhar, "Latino Labor Report, 2004: More Jobs for New Immigrants but at Lower Wages," Pew Hispanic Center, May 2, 2005. Tables 5(a) and 9. http://pewhispanic.org/files/reports/45.pdf Calculations by author.

4. George Borjas, "The Demand Curce Is Downward Sloping," Working Paper 9755, National Bureau of Economic Research, June 2003.

5. George Borjas, "Increasing the Supply of Labor Through Immigration: Measuring the Impact on Native-born Workers," CIS, May 2004, http://www.cis.org/articles/2004/back504.pdf

6. Pia Orrenius and Madeline Zavodny, "Does Immigration Affect Wages?: A Look at Occupation-level Evidence," Working

Paper 2003-2a, Federal Reserve Bank of Atlanta, August 2003. http://www.frbatlanta.org/filelegacydocs/wp0302a.pdf

7. Gianmarco I. P. Ottaviano and Giovanni Peri, "Rethinking the Gains from Immigration: Theory and Evidence from the U.S.," August 2005. http://www.econ.ucdavis.edu/faculty/gperi/Papers/ottaviano_peri_aug_2005.pdf

8. NCPA, "Immigration Boosts Wages," *Daily Policy Digest*, December 7, 2005.

9. Mark Krikorian, "Jobs Americans Won't Do," CIS, January 7, 2004.