

# Effects of Immigration on the Labor Market

## *Effects may be more than reported by NRC*

by Steven Camarota

Few government policies can have so profound an effect on a nation as immigration. Large numbers of immigrants and their descendants cannot help but have a significant impact on the cultural, political, and economic situation in their new country. Over the last 30 years socio-economic conditions, especially in the developing world, in conjunction with U.S. immigration policy have caused 20 million people to leave their homelands and emigrate legally to the United States. Additionally, the Immigration and Naturalization Service estimates that 420,000 new illegals settle permanently in the country each year. The current influx has caused an enormous growth in the immigrant population, from 9.6 million in 1970 (4.8% of the population) to 26.3 million (9.8% of the population) today.

As in the past, immigration has sparked an intense debate over the cost and benefits of allowing in such a large number of people. One of the central aspects of the immigration debate is its impact on American workers, especially those employed at the bottom of the labor market. These workers are thought to be especially vulnerable to immigrant competition because demand for this kind of labor is generally weak and immigrants are heavily concentrated in less-skilled and lower-paying jobs. While these workers have made some gains in the last few years, the real wages of workers at the bottom of the labor market are still below what they were in the 1970s.

### The Impact on Less-skilled Natives

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There are at least four reasons to be concerned about the impact of immigration on the wages of native workers.

First, because they often come from countries where wages are much lower, immigrants may be willing to work for less. If immigrants do underbid natives for jobs, then in order to remain competitive in the labor market, natives will have to reduce their own expectations for compensation.

Second, immigrants may be seen as more desirable workers by employers. If this is the case, natives will have to choose between offering their services for lower wages in order to remain competitive or suffer higher unemployment.

The third reason for concern is that employers can use the threat of further immigration as a way of holding down the wages and benefits of workers. The more open the immigration policy, the more credible the threat becomes.

The fourth and probably the most important reason to examine the impact of immigration on less-educated natives is that immigration increases the supply of labor. Basic economic theory predicts that the wages of those in competition with immigrants will decline as immigration increases the number of workers competing for jobs.

Turning to the first question, do immigrants work for less, especially those employed at the bottom of the labor market? For the most part, the research generally indicates that a few years after arrival, immigrant wages are very similar to those of natives in the same occupation with the same demographic characteristics. This may not be true in all places and at all times, but in general it seems that only newly arrived immigrants undercut native wages.

On the question of whether immigrants are seen as better employees, there is certainly a lot of anecdotal evidence and some systematic evidence that immigrants are seen as better workers by some employers,

especially in comparison to native-born African Americans. It is certainly not uncommon to find small-business men and women who will admit that they prefer Hispanic or Asian immigrants over native-born blacks. This is especially true of Hispanic and Asian employers, who often prefer to hire from within their own communities. We would expect that this preference on the part of some employers to want immigrants will result in lower wages and higher unemployment for those natives who are seen as less desirable.

A study of the Harlem labor market by Newman

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and Lennon (1995) provides some systematic evidence that employers prefer immigrants to native-born blacks. Their study found that although immigrants were only 11 percent of the job candidates in their sample, they represented 26.4 percent of those hired. Moreover, 41 percent of the immigrants in the sample were able to find employment within one year, in contrast to only 14 percent of native-born blacks. The authors conclude that immigrants fare better in the low-wage labor market because employers see immigrants as more desirable employees than native-born African-Americans. I have also found some evidence in my work that in comparison to whites, there is an added negative effect for being black and in competition with immigrants.

While no real research has been done on this question, the threat of further immigration may also exert a significant downward pressure on wages. To see how this might work consider the following example: Workers in a meat packing plant that has seen a sudden rise in the number of immigrant workers will very quickly become aware that their employer now has another pool of labor from which he can draw. Thus, even if immigrants remain a relatively small portion of the plant's total workforce, because of our relatively open immigration policy, the potential of further immigration exists. Therefore, a relatively open immigration policy may have an effect on wages beyond what might be expected

simply by looking at the number of immigrants in the country at any one time.

The fourth reason for concern about the impact of immigration on the wages of natives is that it increases the supply of labor. Based on the March 1998 Current Population Survey there were about 16 million immigrants in the American workforce. However, they are not distributed evenly across occupations. In 1998, 31 percent of immigrants in the labor market had no high school education, and for those who entered in the preceding five years, 36 percent lacked a high school degree. In comparison, only 9 percent of natives in the work force did not have a high school education. Immigrants now comprise about 32 percent of the high school dropouts in the work force, while accounting for only 9 percent of workers with more than a high school education. If we look at occupations, we see the high concentration of immigrants at the bottom of the labor market. In 1998, immigrants made up only 9 percent of individuals in managerial and professional jobs; in comparison, they comprised 20 percent of workers in service jobs, such as janitor, security guard, and child care worker. This means immigration has increased the supply of the some kinds of workers much more than others. As a result, any effect on the wages or job opportunities of natives will likely fall on natives employed in less-skilled and low-paying occupations.

### Empirical Research

Attempts to measure the actual labor market effects of recent immigration empirically have often come to contrary and conflicting conclusions. Studies done in the 1980s and early 1990s, which compared cities with different proportions of immigrants, generally found little effect from immigration (Butcher and Card, 1991; Altonji and Card, 1991; Borjas 1983, 1984). However, these studies have been widely criticized because they are based on the assumption that the labor market effects of immigration are confined to only those cities where immigrants reside.

The interconnected nature of the nation's economy makes comparison of this kind very difficult for several reasons. Research by University of Michigan demographer William Frey (1993, 1996) and others, indicates that native-born workers, especially those natives with few years of schooling, tend to migrate out of high-immigrant areas. The migration of natives out of high-immigrant areas spreads the labor market effects of

immigration from these areas to the rest of the country. There is also evidence that as the level of immigration increases to a city, the in-migration of natives is reduced. In addition to internal migration patterns, the huge volume of goods and services exchanged between cities across the country creates pressure toward an equalization in the price of labor. For example, newly arrived immigrants who take jobs in manufacturing in a high-immigrant city such as Los Angeles come into direct and immediate competition with natives doing the same work in a low-immigrant city like Pittsburgh. The movement of capital seeking to take advantage of any immigrant-induced change in the local price of labor should also play a role in preserving wage equilibrium between cities. Beside the response of native workers and firms, immigrants themselves tend to migrate to those cities with higher wages. In short, the mobility of labor, goods, and capital as well as choices made by immigrants may diffuse the effect of immigration, making it very difficult to determine the impact of immigration by comparing cities.

One way researchers have attempted to deal with the problems associated with cross-city comparisons is to estimate the increase in the supply of labor in one skill category relative to another skill category brought about by immigration in the country as a whole. The wage consequences of immigration are then calculated based on an existing body of literature that has examined the wage effects of changes in the ratio of skilled to unskilled workers. The National Research Council (NRC) relied on this method in its 1997 report entitled *The New Americans* (Edmonston and Smith, 1997). The NRC estimates that immigration has had a significant negative effect only on the wages of high school dropouts. The NRC concluded that the wages of this group, 11 million of whom are natives, are reduced by roughly five percent (\$13 billion a year) as a consequence of immigration. Not a small effect. Dropouts make up a large share of the working poor. In 1998, nearly one out of three native workers living in poverty lacked a high school education. Additionally, 1.6 million native families or more than three million people living in poverty depended on the wages of a person who lacks a high school education for support. Put another way, the wage losses suffered by high school dropouts because of immigration are roughly equal to the combined federal expenditures on subsidized School Lunches, low-income

energy assistance, and the Women Infants and Children program.

My own research suggests that the effect of immigration may be even greater than the estimates in the NRC report (Camarota 1997, 1998). I compared differences across occupations nationally and found that the concentration of immigrants in an occupation does adversely affect the wages of natives in the same occupation. In other words, there is a negative relationship between the percentage of immigrants in an occupation and the wages of natives in the same occupation, even after controlling for a wide variety of factors. By treating the entire nation as one labor market and comparing the effects of immigration across

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occupations, this approach avoids many of the problems associated with cross-city comparison.

My results show that immigrants have a significant negative effect on the wages of natives employed in occupations performed by persons who have only a high school education or less. For the 23 percent of natives employed in these occupations (about 25 million workers), a 1.0 percent increase in the immigrant composition of their occupation reduces wages by 0.8 percent. Since these occupations are now on average 19 percent immigrant, my finding suggests that immigration may reduce the wages of workers in these occupation by more than 1 percent. It should also be added that since native-born blacks and Hispanics are 67 percent and 37 percent more likely respectively to be employed in the negatively affected occupations than are native-born whites, a much higher percentage of minorities are negatively affected by immigration. Moreover, because native-born blacks and Hispanics in these occupations earn on average 15 percent less than whites, the wage loss resulting from immigration is likely to represent a more significant reduction in the material prosperity for

these groups.

Still other researchers have found that immigration adversely affects employment for natives. Augustine J. Kposowa (1995) found that a 1 percent increase in the immigrant composition of a metropolitan area increased unemployment among minorities by 0.13 percent. She concludes, "Non-whites appear to lose jobs to immigrants and their earnings are depressed by immigrants." In a report published by the Rand Corporation, Kevin McCarthy and Georges Vernez (1997) estimated that in California alone competition with immigrants for jobs was responsible for between 128,200 and 194,000 people being unemployed or having withdrawn from the workforce. Almost all of these individuals either are high school dropouts or have only a high school degree. Additionally, most are either women or minorities.

### Policy Discussion

Knowing that low-skilled natives are made poorer by immigration does not tell us what, if anything, we should do about it. The extent to which we take action to deal with the wage and employment effects of immigration depends on how concerned we are about the wages of the less-educated. A number of scholars have argued that the inability of low-skilled workers to earn a living wage contributes significantly to such social problems as welfare dependency, family breakup, and crime. One need not accept all the arguments made in this regard to acknowledge that a significant reduction in wages for the poorest Americans is a cause for real concern.

If we wish to do something about the effects of immigration, there are two possible sets of policy options that could be pursued. The first set would involve leaving immigration policy in place and doing more to ameliorate the harmful effects of immigration on natives in low-skilled occupations. Let me bring up two of the most commonly discussed ways of increasing wages without cutting immigration. Since the research indicates that the negative impact from immigration falls on those employed at the bottom of the labor market, an increase in the minimum wage may be helpful in offsetting some of the effects of immigration. Economic research indicates that the minimum wage does increase the wages for those who already have jobs. However, research also indicates that by raising the cost of labor, the minimum wage can cause unemployment by increasing the incentive to lay off workers and by making employers less willing to hire

new ones. The size of the dis-employment effect, however, is a matter of significant debate in the economic literature. In regard to immigration, it seems clear that increasing the minimum wage and at the same time allowing in large numbers of less-skilled immigrants can only aggravate whatever dis-employment effects exist. In contrast, cutting low- and unskilled immigration would increase wages, without there being any potential for increasing unemployment among those earning the minimum wage.

Another program that might be helpful in assisting those harmed by immigrant competition is the Earned Income Tax Credit (EITC). There is little doubt that the Credit increases the income of low-wage workers. However, in addition to the high cost to taxpayers, the Credit may also hold down wages because it acts as a subsidy to low-wage employers. That is, employers have less incentive to increase wages because workers are now being paid in part by the federal government. Cutting low- and unskilled immigration, on the other hand, has no such down side for less-skilled workers nor is it costly to taxpayers. Moreover, the Credit only increases earnings for those with jobs, it does not address increased unemployment among the less-skilled that comes with immigration. It is also worth remembering that dispersion of funds under the EITC is automatic. Since immigration lowers the wages for precisely those workers who already have low incomes, it is very likely that immigration increase the costs of the Credit to taxpayers. It is also possible that an increase in the Credit may only get incomes back to where they would have been had there been less immigration. Thus, to get the maximum benefit from an increase in the EITC it would be highly desirable to cut low- and unskilled immigration first and then increase the dollar value of the EITC. The resulting gains to low-wage workers are then more likely to amount to a significant improvement in the living standards of recipients.

The second set of policy options that might be enacted to deal with this problem would involve changing immigration policy with the intent of reducing job competition for natives and immigrants already here. If we were to reduce unskilled immigration we might want to change the selection criteria to ensure that immigrants entering the country will not compete directly with the poorest and most vulnerable workers. At present, only about 12 percent of legal immigrants are admitted based

on their skills or education. Since two-thirds of permanent residency visas are issued based on family relationships, reducing the flow of low-skilled legal immigrants would involve reducing the number of family-based visas. This might include eliminating the preferences now in the law for the siblings and adult children (over 21) of U.S. citizens and the adult children of legal permanent residents. These changes would not only reduce low-skilled legal immigration immediately, they would also limit the chain migration of low-skilled immigrants that occurs as the spouses of those admitted in the sibling and

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***“...a greater allocation of resources could be devoted to controlling illegal immigration...”***

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adult child categories petition to bring in their relatives. In addition to reducing the flow of low-skilled legal immigrants, a greater allocation of resources could be devoted to controlling illegal immigration, especially in the interior of the country. This type of enforcement has not seen the same recent increases as border control. Illegal aliens tend to be very low skilled, with an estimated 75 percent lacking even a high school degree.

### Benefits of Immigration

Of course, it is important to realize that wage losses suffered by the unskilled do not vanish into thin air. Many advocates of mass immigration will concede, at least in private, that low- and unskilled immigration reduces wages. However, they will point out that lower wages for the less-educated results in higher profits, and also increases the wages of more-educated Americans who can now be paid more. In other words, while immigration may make the poor poorer, it also creates a small net economic benefit for the country as a whole. The NRC estimated that the gain resulting from the wage losses suffered by the unskilled is equal to about 1 or 2 tenths of one percent of our total economy — \$1 to \$10 billion. Thus, additional unskilled immigration can be justified on the ground that it creates a very small net benefit for the country as a whole, though it is bad for unskilled workers. The net gain is so small relative to the size of our

economy because unskilled workers account for such a tiny proportion of the nation's total output. As a result, their wages can decline substantially without having a significant effect on the economy.

### The Economic and Fiscal Paradox

There is a very high cost to cheap immigrant labor. The economic benefit from immigration comes from the fact that immigrants are significantly less skilled than natives. The resulting high concentration of immigrants at the bottom of the labor market is what causes the significant wage reductions that in turn generate the net gain for employers and others. But unskilled immigrants also have a negative effect on public coffers. In other words, it is precisely those workers who create the economic benefit who are responsible for the fiscal burden. In fact, the fiscal cost (tax payments minus service use) created by immigrant households was estimated by the National Research Council to be between \$11 and \$22 billion dollars a year at the current time. This fiscal cost is large enough to offset the modest economic gains that come from access to immigrant labor. The fiscal burden associated with immigrants is entirely the result of low- and unskilled immigrants. The National Research Council in 1997 found that during the course of his or her lifetime, the average immigrant without a high school degree will use \$89,000 more in public services than he or she pays in taxes. For an immigrant with only a high school degree the figure is \$31,000. They also found that immigrants with a college education tend to be a fiscal benefit — paying considerably more in taxes than they use in services. But, overall the fiscal effect is negative because so many immigrants are poor and uneducated. This means that when the fiscal effects of low-skilled immigrants are considered, immigration reduces the wages of the most vulnerable Americans and creates an added fiscal burden for American taxpayers. And this burden is large enough to offset any economic gain resulting from lower wages for the unskilled. In light of its impact on the poor and public coffers, it is therefore very hard to justify the continued mass migration of very low-skilled immigrants on the grounds that it is good for the country as a whole.

### Conclusion

Of course, it is important to keep in mind that other factors in addition to immigration have had a negative impact on low-wage workers. Technological change and

increased trade have also played a significant role in reducing labor market opportunities for low-wage workers in the United States. However, immigration is unlike technological change or globalization because it is a discretionary policy that can be altered to suit our needs and values. After all, Congress cannot legislate a pause in the expansion of human knowledge or stop the Japanese from setting up factories in Malaysia — but it can reduce unskilled immigration. And based on the latest research, we can do so secure in the knowledge that doing so will not harm to the U.S. economy. In fact, it would probably be good for the country as a whole.

In the end, arguments for or against immigration are as much political and moral as they are economic. If one is concerned about low-wage and less-skilled workers in the United States, then clearly our current policy is unwise. On the other hand, if one places a high priority on helping unskilled workers in other countries, then allowing in a large number of such workers makes sense. Of course, only an infinitesimal proportion of the world's poor could ever come to this country even under the most open immigration policy one might imagine. Those who support the current high level of unskilled immigration should at least do so with an understanding that it is likely to come at the expense of the most vulnerable and poorest workers in the United States. **TSC**

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