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Immigration and its Effects on U.S. Labor Markets

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Abstract

Through the years, labor economists have been studying the effects of immigrants within different labor markets. This paper attempts to shed light on some of the issues surrounding America's sudden change in heart. Do immigrants suppress the wages of native born workers and increase the income disparity? Do they lead to higher unemployment and labor market crowding? And finally, is there room for improvement, or will immigrants prove to be a drain on America's resources and economic well-being?

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By Kristopher Kaneta

I. INTRODUCTION

"The American Dream:" A dream that each American will one day own a home, two cars, and a white picket fence. "The Land of Equal Opportunity" marks a land where anyone and everyone can succeed. These catch phrases were once considered the cornerstone of American idealism. Immigrants flock to America with hopes of providing a better life for themselves and their families, and America, for the most part, has accepted them as equals. Recently, however, such idealism has come under fire as studies show that immigration has depressed the wages of workers with less than a high-school education by 44% between 1980 and 1994 (Federal Reserve 1998), pushing the college-high school wage differential to 24%. Immigrants are blamed for crowding labor markets, increasing income disparity, and increased welfare costs, and are accused of a general inability to assimilate into American society (Jaeger 1995).

Through the years, labor economists have been studying the effects of immigrants within different labor markets. This paper attempts to shed light on some of the issues surrounding America's sudden change in heart. Do immigrants suppress the wages of native born workers and increase the income disparity? Do they lead to higher unemployment and labor market crowding? And finally, is there room for improvement, or will immigrants prove to be a drain on America's resources and economic well-being?

Research conducted over the past 30 years still leaves many questions unanswered. Much of the sentiment against immigration is a myth, yet much is true. The problem lies in differentiating between the two, and understanding that the changing immigrant cohorts since 1950 have each affected our nation differently.

II. A HISTORY OF U.S. IMMIGRATION AND FUTURE EXPECTATIONS

From 1776 to 1965, immigration varied widely, but averaged approximately 230,000 people per year. In 1965, Congress amended the Immigration and Nationality Act and opened its borders for all immediate family of American citizens. Now, since 1970, nearly 30 million people have legally immigrated to the United States from all over the world (Beck).

It is important to note, however, that the composition of immigrants entering the U.S. is gradually changing. Research done by the Federal Reserve Bank of Dallas shows that prior to 1960, immigrants entering the U.S. were predominantly from Europe and Canada (approx. 66%). Now, the Federal Reserve estimates 83% of recent immigrants to be of Asian, Latin American, and Mexican descent. Throughout this paper it is found that this demographic change in immigrant composition has important economic implications concerning immigration's impact on U.S. labor markets.

Meanwhile, U.S. population is expected to rise from 260 million to 400 million people over the next 50 years, and researchers speculate this is predominantly due to lax immigration laws. Immigrants now supply half the nation's population growth and this proportion is steadily rising (Bureau of Labor Statistics).

Currently, 10% of the population are foreign born. In 1996 over 900,000 people entered the country legally. Approximately 300,000 more entered illegally. However, research shows the effects of the two cohorts impact the economy in very different ways. With this in mind, the focus of this paper will be legal immigration, as the effect of illegal immigrants cannot be accurately accounted for in America's labor markets (BLS).

III. IMMIGRANTS AND INCOME DISPARITIES

David Jaeger, economist for the Bureau of Labor Statistics and proponent of immigration reform, claims that lax immigration policies have been the driving force behind the increasing wage disparity, and are responsible for the current 24% college-high school wage differential. Intuition would attribute this to the extensive number of immigrant laborers in the unskilled labor market resulting in excess supply. However, economic researcher Malcolm Gillis believes this increasing wage differential can be better explained via an economic phenomenon known as *educational deepening*. Adhering to the principle elements of developmental economics, *educational deepening* simply states that as an economy progresses, those less educated will be replaced in the workforce by those of higher educational attainment resulting in an inevitable decrease in the demand for unskilled laborers, regardless of national origin. In short, as America has steered away from "blue-collar" manufacturing industry and become a service economy, the demand for the less educated has decreased, while the demand for college graduates has increased.

Contrary to Mr. Jaeger's implications, not all immigrants are confined to the unskilled labor market. Nearly 36% possess a college degree or equivalent, while only 26% of native born laborers are college graduates (Federal Reserve 1998). Most importantly, it has been shown that unskilled immigrants need not have a long-run worsening effect upon income distribution and employment. Research done by Julian L. Simon, an advocate of immigration reform, admits that immigrants apparently cause little aggregate unemployment, and actually help to narrow the income disparity by allowing for a more competitive labor force and by decreasing labor costs.

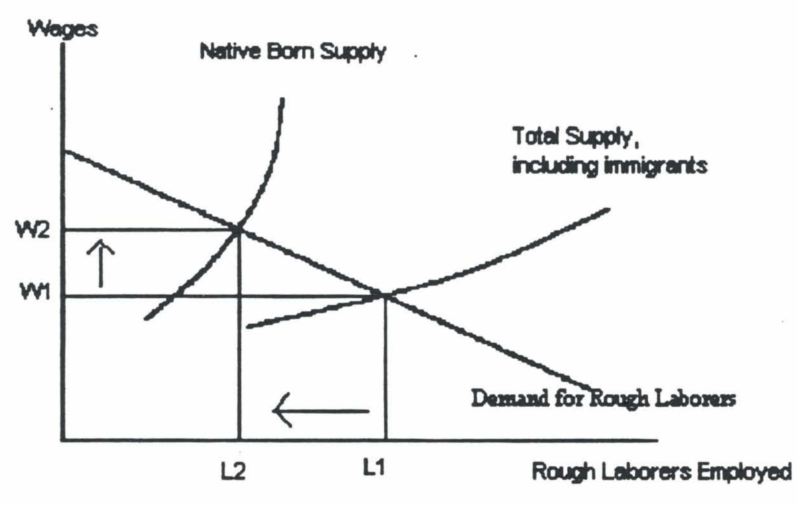
Federal Reserve researchers point out that while high-skilled employment will have the greatest growth, unskilled laborers are often a direct complement to domestic high-skilled workers and capital owners, thus experiencing an increase in demand themselves. The loss of native unskilled laborers competing with immigrants is therefore minimal. As will be seen in the following section, immigrants are actually allowing for greater employment in the unskilled labor market.

IV. FACT OR MYTH:

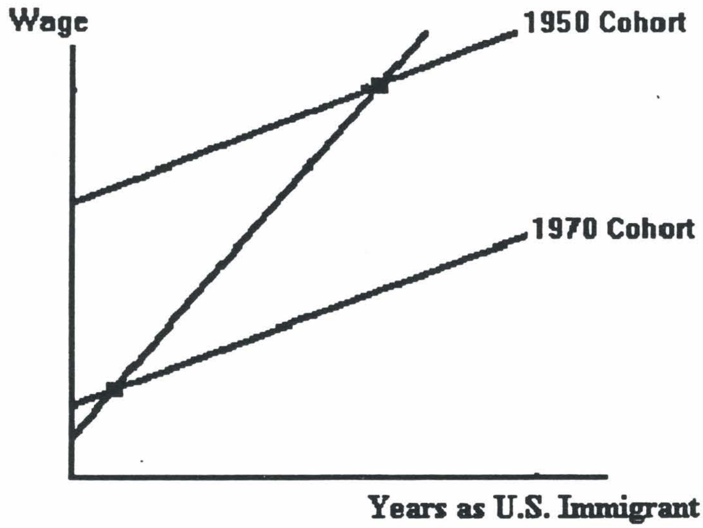
"Employed immigrants are taking jobs away from our American citizens."

Do employed immigrants result in the unemployment of American citizens? While intuition implicates immigrants as the culprit of citizen unemployment through increased competition in the labor force, economic theory

Graph 1: Demand for Unskilled Laborers



Graph 2: Wage Growth Between Different Immigrant Cohorts



shows quite the contrary. Assume for example each employed immigrant were to be deported (any number, say "X"). Because of this, unemployment should naturally fall by a number equal to "X." However, while many immigrants are employed (and possibly putting a native born citizen out of work), many of the tasks performed by immigrants are considered undesirable for the average American citizen and may further require a substantial compensating wage differential (Ehrenberg & Smith).

Arguably, the American economy can manage without the presence of these immigrant "rough" laborers, but how much better off would society be as a whole without them? Granted there are those of native birth willing to perform these jobs, but how much more would it cost society to employ these few?

As shown in graph 1, a loss of all immigrants performing these "rough" jobs would result in a dramatic cutback in supply. This in turn leads to fewer employed laborers (L1 to L2) and a higher equilibrium wage (W1 to W2), perhaps resulting in higher consumer prices for the public and cutbacks in production.

While causing a decrease in the average wage of unskilled workers, immigrants allow for greater employment of unskilled laborers by decreasing production costs for their employers. Those hurt most are immigrants themselves from prior waves, who generally serve as close substitutes for each other as they possess similar amounts of human capital (Ehrenberg & Smith). Still, it is important to understand that those immigrants that do enter the unskilled labor force still have much room for improvement in their educational and economic status.

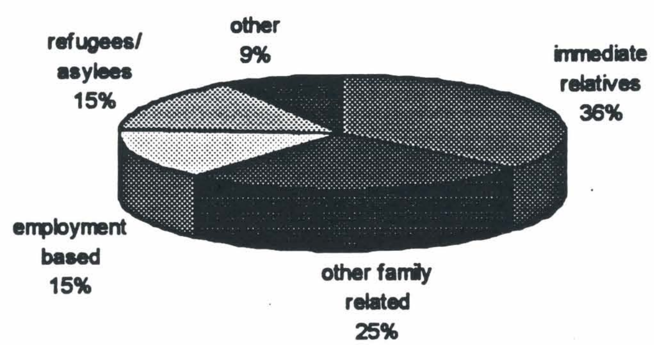
Upon arrival, immigrant earnings are generally less than that of native-born Americans due to their lack of human capital. Research done by economist Barry Chiswick has shown that upon arrival immigrant earnings are approximately 17% less than that of natives. Within fifteen years, however, immigrants' earnings overtake this average, and within thirty years immigrants earn 11% more than native laborers. Chiswick and other researchers argue that immigrants have a tendency to be more motivated, and possess a greater work ethic in the attainment of human capital by choosing to work longer and harder than those of native birth (Borjas).

Chiswick's age-earnings profile of immigrants to natives was created in 1978. In this study, Chiswick compared the average starting income of the 1970 immigrant cohort to the then current income of the 1950 immigrant cohort. In

doing so, Chiswick made the assumption that each successive cohort of immigrants would have the same starting income and rate of human-capital attainment and wage growth (Borjas).

Since then, George Borjas of the National Bureau of Economic Research has challenged Chiswick's immigrant age-earnings profile. In 1994, Borjas argued that Chiswick's data only takes into account a single snapshot of immigrants in the United States and for the most part is outdated. Borjas claims thjat since the wave of immigrants in 1950, each successive cohort has become less successful in attaining comparable earnings to native workers. Borjas continues by claiming that successive cohorts tend also to start at a lower income level. This is perhaps best attributed to the changing composition of immigrants, their increased numbers, and the decreased demand for the tasks that they perform (Borjas).

Figure 1: Categories for 1996 Legal Immigrants



The two points of intersection in the previous model were the basis for Chiswick's research in 1978. He assumed that the intersecting line was the wage growth pattern for all immigrant cohorts. As can be seen, Chiswick was incorrect in assuming that each successive cohort of immigrants would follow the same human capital attainment, starting income, and wage growth. Rather, the 1970 cohort began at a lower level of income, making it relatively more difficult to converge with the wages of native workers (Borjas).

V. APPLICATIONS OF DATA AND EMPIRICAL RESEARCH

Although Chiswick was not entirely correct in his analysis, the information provided leads to some very important insights. Why is it that immigrants are becoming less and less successful in achieving the ever so elusive "American Dream?" Each successive cohort earns fewer real dollars to start, and often falls short of native average incomes. Many attribute this to the change of immigration policy in 1965 when Congress agreed to open its borders to all immediate family members of U.S. Citizens, without assigning quotas. Today, nearly two-thirds of the immigrants entering the U.S. are family related, while only 15% have jobs prior to their arrival.

Further research by the Bureau of Labor Statistics has shown that most immigrants who arrive are less educated as compared to 30 years ago, and fewer are independently wealthy, creating a large strain on public resources. According to the National Research Council, "This relative decline in immigrant skills and wages can be attributed essentially to a single factor- the fact that those who have come most recently have come from poorer countries, where the average education, wage and skill levels are far below those in the United States" (Federal Reserve).

As stated previously, more immigrants today come from Asia, Latin America and Mexico, compared to the large number that came from Europe and Canada almost half a century ago. The educational attainment between immigrants and U.S. natives has widened substantially since 1950 with native levels rising and immigrant levels declining. It is predicted that if policies do not change, net welfare expenses of immigrants arriving after 1969 for the next decade will be $866 billion (Bureau of Labor Statistics).

Perhaps the solution to immigration reform lies somewhere in the middle. As said before,

immigrants need not have lasting effects on aggregate unemployment, and can actually narrow the income disparity. Chiswick clearly proved that immigrants can progress and their wages can converge with that of native born workers, in some cases even surpass them. Federal Reserve studies have shown that 36% of immigrants have a college degree compared to only 26% of U.S. natives. However, problems still lie at the other end of the spectrum with immigrants from Haiti and Mexico earning thirty and forty percent less than U.S. natives, respectively.

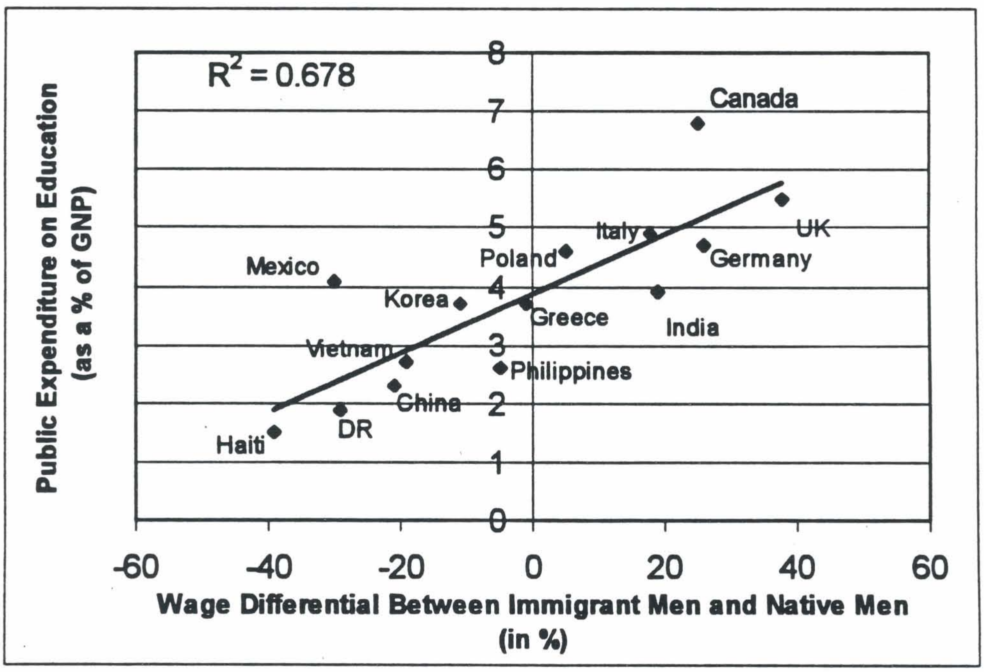
By comparing wage differentials between immigrants and natives and the percent of GNP placed toward public education of 14 countries, a correlation can clearly be seen. Graph 3 shows a definite relationship between the level of education received in the home country of the immigrant and the wage he or she receives in the United States. While European nations tend to have higher levels of education, immigrants from these nations tend also to earn more upon arrival into the United States. At the same time, immigrants from Latin America, Asia and elsewhere, who receive lower levels of education, also earn fewer dollars when compared to native born American workers. (Data for immigrant-native wage differentials from Federal Reserve 2. Data for public education expenditure as a percent of GNP from World Bank.)

Ironically, while it is the more educated European and Canadian workers who potentially earn more than U.S. born natives, the bulk of immigrants today (83%) are from Asia, Latin America and Mexico and are generally less educated and earn potentially fewer dollars than U.S. born natives. In short, as the geographic composition of immigrants has changed, so has the level of human capital they have brought with them. Their lack of education puts today's immigrants at an immediate disadvantage in the workforce, helping to explain the lower starting incomes of each successive cohort.

VI. CONCLUSION AND IMPLICATIONS FOR FUTURE POLICY

U.S. immigration policy has simply become too lax, and the repercussions are becoming quite

Graph 3: Percent of Home Country GNP Towards Public Education and Wage Differential as an Immigrant to U.S. Born Working Male



evident. While immigrants may not cause a lasting negative impact on the economy, America simply cannot afford to shelter 400 million people come the year 2050. The job market is becoming more selective, and too many are crossing the border without a job in hand and most importantly, lacking the human capital required to succeed. Barry Harstein, an attorney specializing in labor-relations, said, "I believe that we will see some definite changes in immigration policy, and that the number arriving with higher education and guaranteed employment will soon make up the majority of immigrants entering our country."

The fact remains that immigrants can and will continue to have positive impacts on our economy. However, the growth in labor markets (particularly the unskilled) can continue only so much and will eventually become over-saturated. If and when the U.S. economy falls into decline, the unemployment of these workers may have devastating repercussions. While the nation as a whole may not experience these effects, heavy immigrant populated states can expect to see increases in unemployment, crime, and welfare costs (Jaeger). These are problems that must be addressed now rather than later. As the demand for unskilled labor slows, so must their increasing supply. The difficulty will forever rest in the remembrance of America, as a "Land of Immigrants."

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