

Does Immigration Help or Hurt Less-Educated Americans?

Testimony of Harry J. Holzer before the U.S. Senate Judiciary Committee

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The vast majority of economists in the United States believe that, *on average*, immigration is good for the U.S. economy. By helping reduce the costs of producing certain goods and services, it adds to our national output and makes consumers better off. Business owners also profit very clearly from immigration.

At the same time, it is possible that some native-born Americans—especially the less-educated Americans who might have to compete with immigrants for jobs—might be made worse off. Certain costs, especially for public education and services to the poor, might rise. And there are various noneconomic considerations, both positive and negative.

On these various issues, what does the evidence show? And what does the evidence imply for immigration policy?

Effects on Earnings of Native-Born Americans

For many years, most studies of the U.S. labor market (e.g., Card 1990; Friedberg and Hunt 1995; Card 2001) have shown little or no negative effects of immigration on the wages or employment of native-born workers—including minorities and those with little education. More recently, another few studies (Borjas 2003; Borjas and Katz 2005) that use different statistical methods from the earlier ones find somewhat stronger negative effects. According to these more recent studies, immigration during the period 1980–2000 might have reduced the earnings of native-born high school dropouts by as much as 8 percent, and those of other workers by 2–4 percent.

However, some strong statistical assumptions are required to achieve these results (e.g., Krueger 2005; Bohn and Sanders 2005). And, even in these latter studies, the long run negative effects of immigration (i.e., after capital flows have adjusted across sectors to the presence of immigrants) are reduced to only 4–5 percent for dropouts and virtually disappear for labor overall.¹

There seems little doubt, then, that any negative effects of immigration on earnings are modest in magnitude and mostly short-term in nature. To the extent that high school graduates as well as dropouts in the United States have fared poorly in the labor market in

¹ New capital and businesses tend to flow to geographic areas with many new immigrants, thus creating more job slots and counteracting the otherwise depressive effects of immigrant labor on the earnings of natives. See Ottaviano and Peri (2005).

recent years—especially among men—other factors are much more likely responsible (such as new technologies in the workplace, international trade, and disappearing unionization).

Native-born minority and especially African-American men face many labor market problems besides immigration, such as poor education, discrimination, and the disappearance of jobs from central cities. In recent years, their high rates of crime and incarceration, as well as child support obligations for noncustodial fathers, have worsened their situation (Holzer et al. 2005).

Does immigration also worsen their plight? There are certain sectors—like construction, for example—where direct competition from immigrants might reduce employment opportunities for black men.² But in many other occupational categories (e.g., agriculture, gardening, janitorial work), such competition is more limited or nonexistent, as the native-born men show little interest in such employment at current wage levels.³ In the absence of immigration, it is possible that wages would rise and maybe entice some native-born men to seek these jobs that they consider dirty and menial, but the wage increases needed would likely never materialize in many cases; employers would either replace these jobs with capital equipment (Lewis 2005) or enter other kinds of business as wages rose.

Two additional points are important here. First, the potential competition to less-educated American workers from immigrants depends in part on the overall health of the economy. Immigration rates have been fairly constant to the United States over the past few decades. In the very strong labor markets of the late 1990s, these rates of immigration did not prevent us from achieving extremely low unemployment rates and real earnings growth, even among the least-educated Americans. In the more sluggish labor markets since 2001, the same rate of immigration generates more concern about job competition (Sum 2004; Camarota 2004). But, even in this latter period, the very weak earnings growth of most American workers cannot possibly be attributed to the arrival of a million or so new immigrants annually (Holzer 2005).

Second, the illegal status of perhaps one-third of immigrants might well magnify any competitive pressures they generate for less-educated native-born workers. The reduced wages and benefits associated with their illegal status offer employers one more incentive for hiring them instead of native-born workers, who might be interested in some of these jobs and might be more appealing to employers at equal wages.

Other Economic Effects

² Employers in these sectors often prefer immigrants to native-born workers because they perceive better work ethic, lower turnover, and better job performance among the former (Moss and Tilly 2001). In these cases, employers will often encourage the recruitment of immigrants through informal networks to which native-born minorities have little access.

³ In the jargon of economists, even native-born workers and immigrants who are high school dropouts are very “imperfect substitutes” for one another, and often work in different sectors of the economy (e.g., Cortes 2005). If anyone is hurt by newly arriving immigrants, it is most likely the earlier immigrants working in the same sectors of the economy.

There is virtually no doubt that immigration reduces the prices paid by consumers on many goods and services. There remains much uncertainty about the magnitudes of these effects and exactly who benefits the most. For instance, higher-income Americans might benefit the most from child care and other private household services, gardening, and food preparation services in restaurants.⁴ But lower-income Americans likely benefit disproportionately from lower prices on food, housing, and even some medical services associated with immigrant labor in agriculture, construction, and health support occupations, respectively.

Over the next few decades, the contributions of immigrant labor to certain key sectors will likely grow more important. For example, the scientists and engineers needed to keep our nation competitive in scientific innovation and new product development will depend to a growing extent on foreign graduate students who choose to remain here after finishing their schooling (Freeman 2005), even though their presence might reduce the incentives of some native-born students from entering these fields. In other sectors, the retirements of “Baby Boomers” may also generate stronger labor demand. A variety of labor market adjustments (such as delayed retirements, new technologies, greater foreign “offshoring” of work, etc.) will likely mitigate the impacts of these retirements in the aggregate (Freeman 2005a). But in certain key sectors—especially health care and elder care—these adjustments are less likely to meet the necessary demand, and the need for immigrant (and other) labor may remain quite strong.⁵

Perhaps the most serious economic costs imposed by immigrants on native-born Americans—at least in those few states that serve as the primary “ports of entry” to immigrants—are those associated with public education, health care, and other income transfers to the poor.⁶ While these costs are no doubt significant in those states, they have been reduced by legal changes in the welfare system that reduced immigrant eligibility for such transfers (Borjas 2002). Over time, immigration might modestly improve the fiscal status of Social Security and Medicare, as it helps replenish the falling ratios of workers to retirees.⁷

⁴ Cortes (2005) estimates that immigration in the 1990s reduced consumer prices on “nontraded,” or locally produced, consumer products by less than 1 percent. Her estimates are fairly comparable across education (or income) groups. These estimates are based on limited data and a variety of assumptions whose validity will likely be examined in future work.

⁵ Health care and elder care demand are likely to grow substantially as the Boomers retire, while caps on third-party insurance reimbursements will likely prevent wages from rising sufficiently in these sectors to “equilibrate” (or balance) supply with demand.

⁶ While immigrants are somewhat less concentrated geographically today than in earlier years, over two-thirds still reside in six states: California, New York, Texas, Florida, New Jersey, and Illinois.

⁷ Low-wage immigrant workers may actually draw relatively more funds out of the system when they retire, given the progressive nature of the benefit payment system under Social Security. On the other hand, their relatively higher-wage children and grandchildren will likely be contributing more to the finances of the system in those years.

By far, the greatest benefits of immigration to the United States accrue to the immigrants themselves, whose earnings here are often vastly higher than they would be in their home countries. Both foreign policy and humanitarian considerations might lead us to approve of this, even though the direct economic benefits to native-born Americans are more limited.

Policy Implications

If immigration is largely good for the overall U.S. economy, should we simply “open the floodgates” and remove all legal restrictions on it? Most Americans would be reluctant to do so, especially since there are some significant costs to immigration, and at least some workers who are made worse off. The noneconomic implications of such a move (e.g., for the national character and makeup of our communities) might also be troubling to many people.

But, if our ability to restrict immigration legally is imperfect, what shall we do? Efforts to improve the enforcement of existing laws in humane ways (e.g., without creating felonies for illegal immigrants and those who hire or assist them, or building costly fences along the Mexican border) may be worth trying, though their effectiveness may be limited. On the other hand, generating pathways by which illegal immigrants in the U.S. can achieve full citizenship (by paying fines, back taxes, etc.) makes a lot of sense, given that their illegal status imposes hardships on them and their children while likely exacerbating the competition they pose to native-born Americans. It seems unlikely that any such move would dramatically raise the incentives that illegal immigrants currently have to enter the country, given the gains in their standards of living that occur even when they enter illegally.

Guest worker programs have some major limitations, particularly in terms of enforcing legal rights for these workers and ensuring that they maintain some bargaining power relative to their employers (Krueger 2005). Since most guest workers stay permanently, the benefits of such an approach seem dubious. But some legal changes that encourage greater immigration of highly educated workers over time would likely generate greater benefits to the U.S. economy, as Borjas (2005) argues.

Finally, if we really want to improve opportunities for less-educated Americans in the labor market, there are a variety of approaches (such as improvements in education and training, expansion of public supports like health insurance and child care, and supporting protective institutions such as minimum wage laws and unions) that would likely be more effective than restricting immigration.

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