

Dr. Harry J. Holzer's Testimony on the Impact of Immigration on the Economy

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Testimony of Harry J. Holzer

Committee on Education and the Workforce

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Economic Impacts of Immigration

There are currently nearly 40 million foreign-born residents of the U.S., and about 22 million of them are in the workforce. They constitute about 15 percent of the workforce. Immigrants have been arriving in the U.S. at a consistent rate of about 1.3 million per year over the past decade or so. Perhaps 10-11 million residents, and 6-7 million workers, are undocumented (or illegal) immigrants.

Over two-thirds of all immigrants reside in six states (CA, NY, TX, FL, NJ and IL), though their concentrations in these states have been declining over time. Immigrant workers also concentrate quite heavily in a limited number of industries, such as agriculture, construction, accommodations, food preparation and nondurable manufacturing. Nearly 30 percent of immigrants are high school dropouts, but about a fourth are college graduates. Immigrants constitute large fractions of the current population of U.S. graduate students, especially in science and engineering.

Employment Effects

One of the most controversial issues surrounding immigration has always been its impact on employment outcomes of native-born workers. Do immigrants take jobs from U.S. citizens, and thus reduce their earnings and employment levels? What is the extent of competition between these groups?

Professors George Borjas and Lawrence Katz of Harvard University have recently calculated that immigration in the period 1980-2000 might have reduced the earnings of native-born U.S. workers by 3-4 percent, with larger negative impacts among high school dropouts but smaller among all other education groups (Borjas and Katz, 2005). Their estimates are at the high end of those generated by labor economists; others, including Professor David Card of the University of California at Berkeley, have found fairly negligible negative effects (Card, 2001). These different estimates represent two different statistical approaches to estimating the impacts of immigration, both of which are plausible but each having its own limitations. But a consensus view among labor economists would probably suggest that immigration has reduced the earnings of less-educated native-born Americans by a modest amount, and perhaps somewhat more among high school dropouts.

Given the magnitude of migration to the U.S. in recent years, why has immigration not had an even larger negative effect on the earnings of native-born workers? The modest impact of immigration is probably due to the following factors:

- Immigrants are consumers as well as workers. They raise the demand for goods and services where they reside, as well as the supply of labor.
- Immigrants remain quite heavily concentrated in a small number of states, and in a small number of occupations and industries in those states. Many, though not all, of the least-educated immigrants work in low-wage jobs to which the supply of native-born labor is limited, while those who are more heavily educated work in fields (such as science and engineering) where employment growth remains very strong.
- Native-born workers tend to offset the effects of immigration by moving elsewhere, thereby further reducing the amount of direct competition for jobs between the two groups.

It is also important to note that some employers prefer immigrants to native-born workers in low-wage jobs, at least partly because the undocumented status of some allows employers to pay them below-market wages; the degree of competition between these workers and the native-born is thus exacerbated by the illegal status of many among the former. Employers also tend to perceive a stronger work ethic among the immigrants, even at comparable wages (Kirschenman and Neckerman, 1991). On the other hand, in the absence of these workers, some employers would have to pay somewhat higher wages and benefits, and might well attract more and higher-quality native-born labor.

The extent of competition over jobs between native-born and immigrant workers also depends, to some extent, on the overall strength of the U.S. labor market. The rate of new immigration to the U.S. has been constant over the period of the past 15 years. During the very tight labor markets of the late 1990's, demand for workers was very strong in the U.S., and native-born workers enjoyed high employment rates and strong wage growth despite the presence of many immigrants. On the other hand, the slowdown in U.S. labor markets since 2001 has likely exacerbated the competition between these groups (Sum, 2004; Holzer, 2005).

Other Economic Effects

Immigration tends to have other effects on the U.S. economy. For instance, by reducing the costs and prices of domestically-produced items such as food, clothing and housing, immigration confers some benefits on the U.S. consumer - especially low-income consumers, who spend large fractions of their disposable incomes on these items.

The exact magnitudes of these effects are somewhat hard to quantify (Borjas, 1995; Card, 2005), though rising numbers of immigrant workers in any sector leads to both greater competition over jobs and greater benefits to consumers.

By providing workers at different skill levels to the health care and elder care industries, foreign-born workers tend to reduce labor shortages that might otherwise occur, and thus help increase the supply (and reduce the cost) of health care services to Americans. And by providing more students and professionals in the fields of science and engineering, they help the U.S. to maintain its international "comparative advantage" in these fields.

As we look to the future, these contributions in many areas may grow more important. For example, as "baby boomers" begin retiring in large numbers over the coming decade, the supply of immigrant labor to the health care and elder care fields will become even more critical for averting shortages of services in these areas. By supplying more younger workers and fewer retirees, new immigration will help reduce the nation's fiscal imbalances over the next several decades. And by replenishing the nation's supply of scientists and engineers, highly-educated immigrants will be critical to the preservation of U.S. strength in technological innovation, especially as other countries (like China and India) become more competitive in these areas (Freeman, 2004).

There are some other economic costs to immigration. For example, since immigrants are more heavily concentrated among low-income Americans, they tend to draw payments from means-tested programs at a higher rate than do native-born Americans. On the other hand, the reforms to welfare and other programs in the 1990's reduced this greater dependence, to some extent (Borjas, 2001; Fix, 2001).

Overall, these data imply some significant economic benefits to immigration, both now and in the future, and especially to low-income consumers. It imposes some modest fiscal costs on the U.S. right now, though its fiscal benefits will grow over time.

Policy Implications

The discussion above suggests that it would be economically unwise to drastically curtail immigration to the U.S. The prices of some important categories of consumer goods would rise significantly, while employment shortfalls would be exacerbated in some key sectors as well.

To the extent that illegal immigration imposes greater costs on U.S. workers, it might be helpful to curb that component of immigration. But there is no obvious method of doing so. Much stiffer employer sanctions for the hiring of undocumented workers might accomplish this, though its practicality from an enforcement perspective (and also politically) remains unclear. On the other hand, by providing some means for undocumented immigrants to ultimately obtain legal status, we could help "level the playing field" between these immigrants and native-born workers with whom they compete for some jobs.

Some analysts (e.g., George Borjas of Harvard University) have argued for a new system that puts greater emphasis on the education and skills of prospective immigrants, and less emphasis on their family members in the U.S., as determinants of who obtains the right to enter legally. Indeed, such criteria are used more heavily in Canada, Australia, New Zealand, and elsewhere. This could also be accomplished with a major expansion of the H1-B visa program for highly-educated immigrants.

This viewpoint has some merit, as the economic benefits of highly educated immigrants to the U.S. economy are quite substantial, while their costs (in terms of competition for jobs and fiscal drain) are more modest. On the other hand, it is important to remember that many of the benefits of immigration to the U.S. - in terms of reduced costs of commodity goods and greater supply of services to the health and elder care sectors - also derive from less-educated immigrants. And limiting the legal flow of immigrants might well exacerbate the flow of illegal immigrants to the U.S., whose presence is more costly to native-born workers.

Of course, some less-educated Americans have been hurt by immigration, and more importantly by many other forces in the U.S. labor market - such as new technologies, foreign trade, the diminishing presence of unions, and the decline in the statutory levels of the minimum wage. It would be more helpful to these workers to focus on improving their skill levels (through better education and training), improving the quality of jobs to which they have access (through moderate increases in the federal minimum wage, reforms that make it easier for low-income workers to organize, and public supports for employers that provide training and advancement opportunities), and extending the work supports available to them (through child care, parental leave and health insurance) instead of threatening to curb immigration, whose economic impacts on lower-income Americans are more mixed.

Finally, it is important to remember that immigration policy should be driven by both economic and non-economic considerations. The latter might include the economic benefits we confer on the residents of poorer nations in our hemisphere, the political stability and diplomatic benefits we derive from such help, as well as our values as a land of opportunity and inclusion to people from around the world.

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