

## **Economic Effects of Contemporary Immigration**

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Madame Chair and members of the committee, my name is Gerald Jaynes and I am Professor in the department of economics and in the department of African American Studies at Yale University. One of my major research interests during the past decade and a half has been immigration and its effects on race and ethnic relations and the economy. It is my pleasure to offer you my thoughts on the economic effects of contemporary immigration in the United States. Today I confine my remarks to the economy focusing on the net benefits and costs of immigration and their distribution across various social groups.

As we all know, one of the more salient issues concerning this topic is the question of immigration's effects on the employment opportunities of native-born workers. For fear of providing fuel to some of their nastier opponents in the contentious debate over immigration, many supporters of immigration and immigrant rights are reluctant to acknowledge immigrations' deleterious effects on some native workers' labor market prospects. My position is that we can acknowledge that immigration probably hurts the employment and wages of some less educated citizens and still conclude immigration is a net benefit for the United States. The most methodologically sound estimates of the net effects of immigration on the nation conclude that the United States, as a whole, benefits from contemporary immigration. Properly measured, this conclusion means that during a period of time reasonably long enough to allow immigrants to adjust to their new situations, they produce more national income than they consume in government services.

Confusion about this issue is caused by some analysts failure to make appropriate distinctions between immigration's impact on specific local governments and groups and its impact on the whole nation. Although benefits of immigration, such as lower prices for consumer and producer goods and services, greater profits and tax revenues, accrue to the nation as a whole, nearly all of the costs for public services consumed by immigrants are borne by localities and specific demographic groups. As a consequence, although immigration has positive net benefits nationwide, the net benefits to some localities and specific interest groups can be negative. Even so, inappropriate methods of analysis have led some analysts to overstate the costs of immigration even at the local level. In particular, analyses that purport to measure the benefits of immigration by comparing taxes paid by immigrants to the cost of public services they consume are egregiously incompetent and misleading. A complete cost benefit analysis must compare the increase in national incomes to immigrant costs.

On average, Americans receive positive economic benefits from immigration, but, at least in the short run, residents of particular localities and members of certain groups may lose. Cost benefit analysis is only concerned with a comparison of aggregate costs and benefits; who bears the costs are not considered. But in any large-scale social reorganization, there are inevitably winners and losers. Economists call the welfare principle that legitimates cost-benefit analysis as a decision-making

criterion for social policy the Hicks Compensation Principle. Stated succinctly it merely says that if aggregate benefits of immigration exceed costs, the gains of all society's winners are sufficient to adequately compensate all society's losers. In theory, such payments from winners to losers would make everyone better off. In practice, such compensation is seldom forthcoming. Along with localities hosting disproportionately few immigrant residents but benefiting from the employment of many immigrant workers, owners of capital, and most consumers and workers gain at the expense of some native-born workers. Workers who lose are low-skilled, poorly paid, and disproportionately minority.

Democratic concepts of justice suggest the losses of a few should not override the gains of the many. Democratic concepts of justice also demand that society's least advantaged members should not be paying for the immigration benefits enjoyed by the entire nation. A democratic society benefiting from immigration and debating how to reshape its immigration policies should also be discussing social policies to compensate less-skilled workers through combinations of better training, relocation, and educational opportunities. It should also be debating how the federal government should address the unequal burdens of immigration among localities.

### **Labor Market Losers?**

The charge that immigrants reduce the wages and employment of native-born Americans is one of the most contentious issues of the debate over immigration and "control of the U.S. border." Despite the highly organized and publicly visible forces touting evidence of immigrants' devastating effects on native workers and especially young minority workers, how immigrant workers affect native labor markets remains a topic of uneasy debate among both lay people and economists. Some people argue current levels of immigration are literally destroying communities because undocumented workers are driving blue-collar wages so low a middle class standard of living is becoming unattainable for many working Americans. Such arguments often claim foreign workers are particularly detrimental to the job prospects of young African-American men lacking high school diplomas. Yet, according to polls, at least until very recently, possibly a majority of American citizens believe otherwise. Many Americans are more likely to believe immigrants fill jobs that without them would remain vacant and that their labor is actually accelerating economic growth and expanding overall employment.

Consistent with these polls, rigorous analyses of the effects of immigration on less-educated native workers suggests these effects are relatively small and in any event secondary to other causes of less educated native workers' often dismal employment experience. As I have commented elsewhere, in addition to an abundance of anecdotal evidence showing immigrant "takeover" of specific jobs (Jaynes, 2000:23), both common sense and straightforward economic reasoning explain why some Americans say they believe immigrants lower wages and displace native-born workers from jobs. The common sense behind these fears emerges from the most basic principles of supply and demand; mass immigration of millions of migrants looking for work in a new country should exert a large and negative effect on the wage and employment opportunities of workers already in the country.

### **Recent Labor Market Experience of Young Males**

Supply and demand theory is supported by the fact that the surge in immigration during the past thirty-five years occurred simultaneously with a large drop in the inflation-adjusted wages of less-educated American workers. The adverse trend in the wages of less educated men in particular, was

both absolute and relative to the wages of college educated men (Jaynes, 2006). As the average education levels of arriving immigrants declined significantly after 1980, the compensation of less-educated U.S. workers fell dramatically relative to wages of the highly educated. One way to understand the increases in earnings inequality is to compare the earnings of high school and college graduates. The earnings of full-time high school graduate men fell significantly compared to the earnings of college graduate men of the same age. Underlying the disadvantageous change in high school men's relative wages were two basic trends; while the inflation adjusted earnings of college graduates increased significantly after the mid-seventies, the inflation adjusted earnings of high school graduates at best stagnated and at times declined.

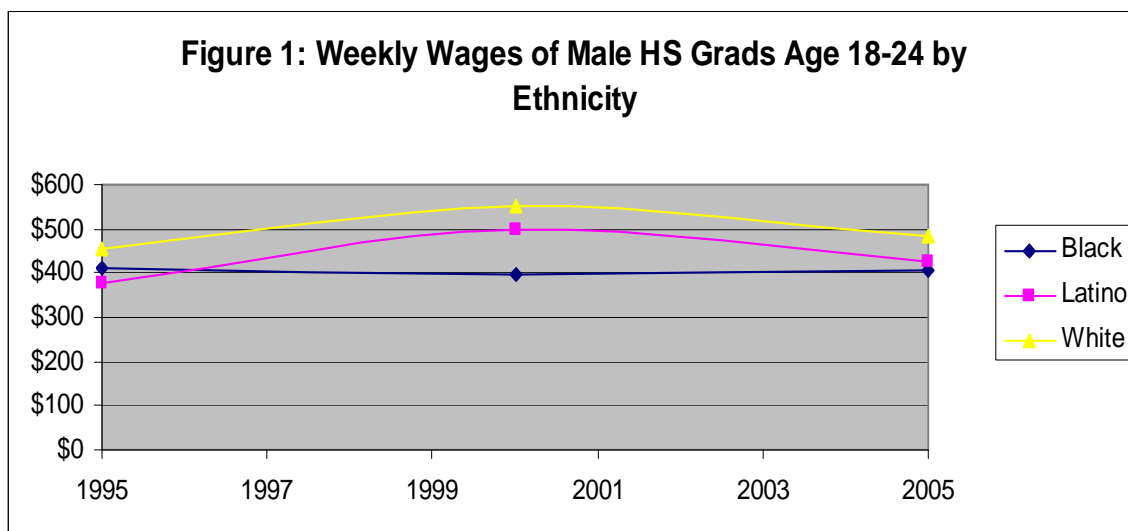
The largest reductions in earnings occurred among less educated men and women and for all races. During the decade and a half period encompassed by the early 1970s and the late 1980s, the earnings of the poorest ten percent of working men fell more than 30 percent even as the earnings of the most affluent 40 percent held steady. To illustrate the point, between the years 1969 and 1984 (measuring in 1984 constant dollars) the mean weekly wages of white male high school graduates fell from \$481 to \$393; this was a reduction of 18 percent. The fall in mean weekly earnings among white male high school dropouts was much sharper; 37 percent. Sharp reductions in the already lower wages of comparably educated African American men decimated working conditions among young black males. During this fifteen year period, black male high school graduates mean weekly wages fell 22 percent, from \$357 to \$278, and for black male dropouts mean weekly wages were in a period of free fall dropping 32 percent, from \$312 to \$213.

Falling inflation-adjusted wages and rising earnings inequality was accompanied by increasing male joblessness, and as any one remotely familiar with the recent socioeconomic history of the United States knows, joblessness and low earnings were especially severe among young black males. Deteriorating wage opportunities had already precipitated severe reductions in young black men's employment during the decade of the 1970s, but incredibly their labor market position deteriorated even further during the 1980s. Overall, the unemployment rate of black men exceeded 20 percent during the early 1980s. At the midpoint of the eighties decade, the average black man aged 20 to 24 who had dropped out of high school earned only \$146 per week when employed, unfortunately such black men had an unemployment rate of 45%. Their high school graduate counter-parts fared little better, averaging earnings of \$165 per week. White dropouts that age earned a third more and faced half the unemployment rate, a situation still burdensome for their communities. The response to these catastrophically low wages was a marked detachment of many young black men from legal market employment. Thus, although in 1970, black high school graduates and college graduates ages 25-34 had similar employment rates (90% versus 90.4%), by 1985 high school graduates had an employment rate 13 percentage points lower (66.3% versus 79.6%). The employment rate of same age black high school dropouts during 1985 was 57.2%, more than 20 points lower than the college graduates. During 1970, even the drop outs had enjoyed an employment rate of 85%. An indicator of the extent to which these young men took recourse through black and gray market work is that the proportion of black high school dropouts in this age group reporting no earnings more than tripled, from 7% in 1970 to 23% in 1985.

More recent labor market experience of young American men has continued to bolster the claims of critics of immigration who say immigration deteriorates the employment prospects of African American males. The ten year period beginning in 1995 and ending with 2005 began with a healthy upsurge in employment and wages for the American people. Post-2000, some of the earlier wage gains were lost but wages remain higher than during the early nineties. A brief look at the wage experience of young black men during this ten-year period helps explain why criticism of immigration may be increasing from within the African American population. Unfortunately, the experience of African American men

in the age category 18 to 24 who are high school graduates and full-time workers has probably diminished the labor market expectations of disadvantaged young black men.

While the wages of full-time working white and Latino male high school graduates rose sharply during the economic boom between 1995 and 2000, the wages of similar black men were flat leading many African Americans to speculate that heavy Latino immigration during this period was indeed deteriorating employment and wage opportunities for black men. See Figure 1 which also illustrates the general deterioration in the wages of young American men of each group since 2000. The fact that the wages of young Latino men overtook the wages of similar young black men during this period merely flames the fires of discontent over immigration.



Source: Data calculated from CPS Annual Social and Economic Supplement, 2006, Table PINC-04; 2001 March Supplement, Table PINC-04; 1996, Table PINC-06A. Weekly wages of Full-time workers calculated as annual earnings divided by 52.

Facts concerning immigration such as those just reviewed bestow tremendous salience to Americans' escalating demands that Congress construct a wall about our international southern border to stem the tide of undocumented migrants. Some critics of immigration go further calling for the government to seize all illegal immigrants and deport them. In addition, they say, documented immigration should be severely limited and allowed only for highly educated and skilled applicants.

### Assessing the Evidence of Immigrations' Labor Market Effects

One need not search hard to find disturbing evidence that recent immigrants may exert negative effects on sectors of the U.S. labor market. But how convincing is the evidence? Social scientists require stronger proof than mere correlation between arriving numbers of immigrants and deteriorating job market conditions for natives. After all the last four decades of U.S. history have encompassed a host of socioeconomic changes each of which offers an alternative explanation for the deteriorating economic circumstances of lower skilled workers. The specifics of the alternatives make the conjecture

especially salient for young black males. No remotely credible argument blames immigration for the large and near steady reduction in blue-collar jobs in the U.S. which began during the 1950s. Nor did immigration cause the weakening of labor unions, automation, growth of the computerized information economy, or deteriorating U.S. import-export balances that continue to suck up good paying jobs.

And, indeed, social scientists' rigorous statistical analyses initially stood upon its head the common sense of straightforward supply and demand theory. Until well into the 1990s, the great preponderance of rigorously designed and executed studies of immigration's effects on the economic position of U.S. citizens concluded that the effects were either ambiguous and in any case negligible or that immigrants in fact had a positive effect on the employment and wages of natives. These results held for both skilled and unskilled native-born workers and for women, minorities, and whites. The one exception to the findings of no negative effects were recent immigrants who were found to be hurt by those who arrived behind them.

The counterintuitive results of this research were explained in the following terms. The job skills brought into the country by less-educated immigrants were complementary to the skills of higher educated and trained natives; therefore immigrants did not compete for natives' jobs. On the contrary, the rising supply of immigrant workers ready and able to work hard for low wages is said to spur the expansion of many existing firms and the growth of new firms able to profit from the low wages. The expanding firms based on low wage immigrant labor also hired more skilled native labor as their revenues grew. Janitorial services, car washes, and poultry processing plants with growing numbers of employees require more supervisors, clerical workers, accountants, etc. Using this literature, proponents of relaxed immigration policies argued that immigrants in fact improved the working position of natives.

## **More Recent Analyses**

Dissatisfaction with the statistical methods used in early studies of the effects of immigration on the employment opportunities of natives led to the use of different models. Using more sophisticated statistical methods than the earlier literature, Borjas, Freeman, and Katz (1992) estimated that during the 1980s increased imports of goods produced with lower-skilled labor and rising immigration of lower-skilled labor were important contributors to the adverse turn in the weekly wages of American high school dropouts as they compared to the weekly wages of American college graduates. These authors estimated the "implicit" increase in the supply of lower-skilled labor within the U.S. that is consistent with the increased volume of U.S. imports and immigrant labor supply. They estimated 30 percent to 50 percent of the decline in the relative weekly wage of high school dropouts between 1980 and 1988 should be attributed to increased immigration and trade. Wilson and Jaynes (2000:22-3) decomposed the effects of immigration on geographic labor markets into separate effects of flows and stocks of immigrant workers. Their analysis also estimated separate effects for various native-born ethnicities and skill-education groups. They found that immigration flows across geographic areas were a negligible factor on the declining wages and employment of less educated native born workers. That finding is consistent with the no effects findings of earlier literature. However, they also found that the size of the immigrant population within a given area did have a modest negative affect on the employment of less educated African Americans.

More recently, Borjas and Katz (2005) have refined earlier methods even further and updated analysis of the effects of Mexican immigration on low skilled workers to cover the 1990s. They conclude that the large growth in immigration during the eighties and nineties (particularly the acceleration of low-skilled Mexican laborers) lowered the wages of native-born high school dropouts by

about 8 percent and exerted a modest influence in widening overall wage inequality within the U.S (2005: 37-38, Table 11, p. 63).

## **Special Labor Markets**

Despite the relatively modest effects on natives' wages in the U.S. overall, there are obviously some job markets where immigrants exert significant influences on natives' job prospects. Meatpacking is a salient example of an industry where case study provides strong evidence that low-wage undocumented immigrant workers have displaced native-born workers. Always an especially dirty, physically demanding, and often dangerous occupation meatpacking jobs have historically attracted only the least educated members of the workforce. The industry has typically offered employment to large numbers of African Americans. Today immigrants dominate jobs in meatpacking and the undocumented are a significant force. During the late nineties, the Immigration and Naturalization Service estimated that undocumented workers composed 25% of the labor in meatpacking plants in Iowa and Nebraska. During the past two decades, immigrant labor has come to dominate the poultry industry in the southern states. In these earliest years of the 21<sup>st</sup> century, Latino immigrants are about three-fourths of the workers in the poultry plants located in northwest Arkansas, the vast majority of the remaining workers are from Southeast Asia and the Marshall Islands. Native-born workers are now rare.

Through the 1970s and into the eighties, larger meat packing firms were heavily unionized with nearly one-half (46%) of the industry's workers unionized. The larger unionized plants paid a wage premium and during 1982 the base wage rate of the largest union was \$10.69 per hour (\$22.33 per hour in terms of 2006 inflation adjusted prices). Rapid immigration of workers from Southeast Asia, Mexico, and Central America during the 1980s coincided with firm demands that workers accept wage cuts. Extremely turbulent employer-union relations in terms of strikes and corporate attacks on unions characterized the 1980s. During the period 1983-1986 there were 158 work stoppages involving some 40 thousand workers in cattle and hog plants. By 1987, the union percentage of the work force had been cut to 21% and wages were down to the \$8 to \$9 range in union and nonunion plants. A sharp decrease in workers' health and safety accompanied the collapse of the unions. Even though the meatpacking industry already had the highest rates of occupational injuries and illness of all U.S. industry, on the job illness and injury rates peaked in 1991 at 45.5 per 100 workers. Jobs in the industry deteriorated so badly that only the steady influx of cheap immigrant labor compensated for the extraordinarily high turnover rates reaching as high as 100 percent annually at some plants during the 1990s. Under these conditions, it is true that meatpacking plants have difficulties attracting native workers (Macdonald, et al, 1999:15-16). It is no wonder then, that many employers of less educated labor say they prefer immigrants over native born workers of any ethnicity. The immigrants, employers say, "show up on time" and "get along with the boss," a metaphor for do what they are told with out complaining no matter how distasteful it may be.

## **Further Policy Directions**

What are the policy implications of findings that low-skill immigrants lower the employment opportunities of some less educated native workers? If the United States allocates much larger resources to border security to significantly reduce the number of undocumented workers while also tightening legal channels of immigration, would the reduction in immigrant workers result in more and higher pay jobs for American citizens? The easy answer is that the reduced labor supply would indeed raise wages and allow more employment of the native-born. However, as with any question of economic effects, the

demand side of the equation must also be considered. Undocumented workers with few legal protections take jobs for lower pay and do them under more undesirable working conditions. Such immigrant workers really lower employers' costs. Take away the immigrants and the resulting increasing wages with less pliable work forces will lower business profits. Where possible, a greater proportion of jobs will be outsourced. Some of the more marginal businesses that will have to pay higher wages to workers who are not as productive will not survive and the demand for less educated workers will likely decrease. The net effect is that wages and employment of native-born workers will likely rise, but not nearly as much as a simple comparison of raw numbers suggests.

Low-wage labor conditions unbecoming an affluent democratic society exist because in the present climate of migrant bashing there is little support for social and political action saying let's protect illegal workers. But this is short sighted, ultimately, if working conditions are allowed to deteriorate to levels where migrants are exploited, all labor with whom the migrants compete become exploited as well. This is true even if natives' exploitation materializes in the form of joblessness and poverty. The terms of the debate must be changed to a desire to protect the integrity of the nation's low-wage labor markets and the citizens working in them from conditions inconsistent with standards of living and values of justice in affluent representative democracies.

It is crucial that the nation adopts social policies designed to protect the rights and living standards of all low wage workers. Such policies need not require draconian migration policies that ban immigrants. Indeed, the worldwide globalization of markets ensures such migration will continue. However, migration must be better regulated to ensure numbers consistent with work conditions appropriate to the living standards in host countries. Wages consistent with standards of decency for the least remunerated workers will need to be supported by a program of explicit policies and reforms:

- minimum wage laws covering all workers
- enhancement of earnings by expanding the current Earned Income Tax Credit system to all citizen households who work fulltime
  
- Documented immigrant workers must be guaranteed reasonable paths to citizenship
  
- Protection of low wage markets through stronger enforcement of existing laws against undocumented migration
  
- To ensure labor conditions remain consistent with social values in an affluent democratic society, immigrants workers (guest workers) must be free to change employers

There are costs to instituting these policies. If employment conditions and compensation are increased enough to attract citizen workers, employers' profits will fall, and prices of some services and products will rise. This will necessarily raise strong opposition to these policies from obvious political constituencies. The simple fact that high migration of poor low skilled workers into more affluent geographic regions raise the profits of employers of less-educated workers explains why employers continue to clamor for more migrants and guest workers (documented or not). In so far as middle class households employ such labor to clean houses, landscape, do repair work or consume products and services priced lower because of the cheap labor, a wide spectrum of middle class and affluent citizens gain economically from migration. Other interest groups demand an end to all immigration claiming the migrants are devastating the employment prospects of young less educated native workers and depriving poor unassimilated minorities the opportunity to work themselves into the lower middle class.

Summarizing my testimony, the evidence supports the conclusion that from an economic standpoint immigration's broader benefits to the nation outweigh its costs. An assessment of the effects of immigration on the employment prospects of less educated native born workers is that the effect is negative but modest, and probably is significant in some specific industries and geographic locations. Important examples are meat packing in several areas of the south and midwest and certain types of construction work throughout the nation. However, it is just as likely that the relative importance of less educated young native worker's job losses due to the competition of immigrants is swamped by a constellation of other factors diminishing their economic status. A significant minority of our most disadvantaged young people persist in low educational achievement, dropping out of high school, and engaging in negative behaviors such as criminal activity. Substantial improvement of the economic status of disadvantaged young people will require considerable change in their social status on many other dimensions.

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