



(Illegal) The Immigrant Effect

A young boy watches his migrant worker mother pick grape tomatoes in Rocky Point, N.C.

The economic impact of unauthorized migrants isn't as big as you might think

BY DOUG CAMPBELL

Javier, who does not give his last name, says that he is 29 years old and works in construction, usually earning about \$400 a week. Two years ago he walked dozens of miles through the desert, eventually crossing the Mexican border into Texas. Today he lives with two brothers in Raleigh, N.C., where lately there is an abundance of construction jobs. Javier came to the United States, he says, because "it was a necessity." He needed to earn a living and to this day he regularly sends home what cash he can to his family in Mexico.

He wants to stay in the United States. "Everyone wants to stay here," he says. "Here, the life is much better." But he is unsure about whether this is possible and whether he should even be talking about his residency status in public.

On the question of his legality, Javier's actions probably speak louder than words. On this day he is one of about 150 other people queued up at the Consulate of Mexico in Raleigh, which is housed in a two-story, brown-brick building at the edge of a strip shopping center. This office opened less than six years ago and its main job is issuing "Matricula Consulars" to Mexicans living in the United States. Last year, the Raleigh consulate handed out 23,553 of these documents, which are photo identification cards recognized by the Mexican government and informally accepted by some U.S. employers as proof of identity. But if you're in the country legally, there is no reason to have a Matricula Consular.

By now Javier and his 12 million or so unauthorized peers across the coun-

try need no introduction, especially in Fifth District regions where the immigrant population has surged over the past decade. Depending on your view, he is either an essential part of the U.S. labor market or a criminal who is taking jobs from native-born Americans. But a close look at the real economic effects of illegal immigration reveals a more ambiguous answer. The overall gains to the economy from unauthorized migrants do not appear to be huge, nor do the losses. Perhaps the only thing that can be said with certainty about immigration's economic impact is in identifying its main beneficiaries: They are the immigrants themselves, people like Javier.

Influx

Immigration policy in the United States in the late 20th century was

PHOTOGRAPH: AP WIDE WORLD PHOTOS

principally shaped by two acts. The Immigration and Nationality Services Act of 1965 did away with national origin quotas in favor of setting visa limits for immigrants from the eastern and western hemispheres. The Immigration Reform and Control Act of 1986, which was envisioned as a way to slow illegal immigration from Mexico, granted amnesty to many illegal aliens while at the same time criminalizing the hiring of undocumented workers.

Immigrants kept coming. The foreign-born population grew from 9.6 million, or 4.7 percent of the total population, in 1970 to 19.8 million (8 percent of the total) in 1990 to about 34 million (12 percent of the total) today. Annual immigration

peaked in the late 1990s at about 1.5 million persons, according to the Pew Hispanic Center, a nonprofit research organization supported by the Pew Charitable Trusts, then fell to 1.1 million in 2003.

A lot of these immigrants were born in Latin America. In 1990, there were 22.4 million Hispanics in the United States, or just less than 10 percent of the total population. In 2004, according to Census estimates, Hispanics reached 40.5 million, or 14.2 percent of the total population, many of whom were born in the United States.

The last few years saw a significant change in the composition of immigrants. Since 1995, there have been more illegal immigrants than legal

immigrants to the United States, according to the Pew Hispanic Center, with an estimated 700,000 undocumented migrants each year, compared with closer to 610,000 legal immigrants.

As recently as the early 1990s, there were an estimated 450,000 illegal immigrants entering the country each year. These were just the ones that made it — border apprehensions averaged more than 1.4 million a year in the late 1990s, though dropped to less than 1 million in 2001 and 2002 before turning up again recently.

Unauthorized migrants, the vast majority of which are Hispanics, today make up almost 5 percent of the labor force, according to the Pew Hispanic Center. In general, illegal immigrants tend to have less education, fewer language skills, and more limited bargaining power with employers than their legal counterparts. As a result, they may depress wages for the least-skilled Americans, with whom they compete for jobs, though by how much remains in debate.

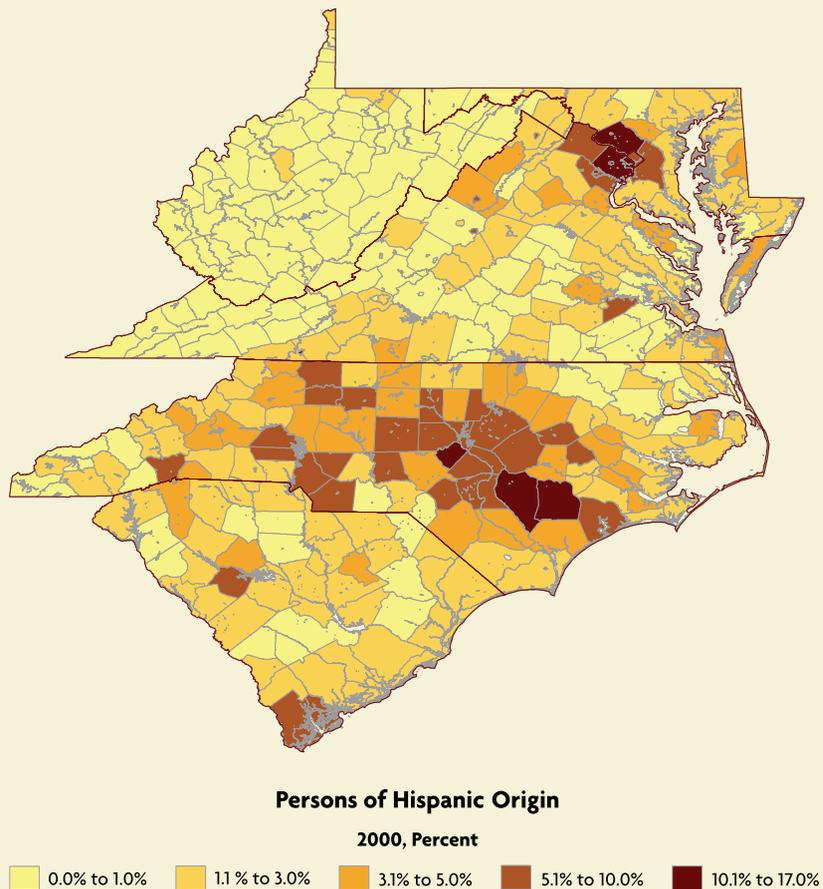
The Impact on Jobs and Wages

In April 2004, Sen. Lamar Alexander, R-Tenn., posed a question to then-Fed Chairman Alan Greenspan: “If we have 8.4 million unemployed, according to our official statistics, and if 6 million illegal immigrants are working, are these 6 million taking the jobs that 8.4 million want?” Greenspan did not directly answer the question, but most any economist would tell you the answer is, in general, no.

For one thing, there isn't a fixed number of jobs in the economy; it can contract and expand to meet supply and demand. In fact, by their very presence, immigrants — both legal and illegal — create demand for new jobs. Additionally, some people argue that immigrants are taking jobs that natives don't want. Washing dishes, harvesting grapes, roofing houses, scrubbing hotel rooms — these tasks are increasingly performed by Hispanic workers, many of whom (and despite their sometimes dubious legal status) are more highly prized by employers than native

Immigration Growth Spurt

The Hispanic population, which was tiny just two decades ago, has now grown substantially. Because of immigration, there are many counties in the Fifth District where Hispanics make up more than 10 percent of the total population.



SOURCE: U.S. Census

workers. “Native-born workers aren’t very happy in these jobs and so there would be higher turnover with them,” says Harry Holzer, a labor economist at Georgetown University.

The North American Free Trade Agreement chiefly covers trade of goods. But there are plenty of economists who contend that the same free trade principles behind that 1993 act ought to apply with immigrant labor because of the benefits to both parties. In a trade arrangement, where production of, say, textiles is moved to a lower-cost country, domestic capital can be put to a more profitable use. Likewise with immigration, low-skilled jobs are filled with lower-cost workers, allowing companies to produce goods more cheaply.

The mistaken notion that both legal and, increasingly, illegal immigrants are taking jobs one-for-one from natives detracts attention from a more plausible scenario: Illegal immigrants may be driving down the wages of the least-skilled American workers.

Here is why: A large share of U.S. immigrants are relatively less skilled. Foreign-born U.S. working-age residents are far more likely to be high school dropouts, for example, than natives. About 32 percent of illegal immigrants have less than a ninth grade education, compared with 15 percent of legal immigrants and 2 percent of the native-born population.

Economic theory is fairly clear on the impact of this sort of immigration: It should reduce the wages of less-skilled native-born Americans. Basically, the supply of low-skilled labor is going up while the demand for such labor is remaining flat, thus tamping down wages for this segment of the population.

There is agreement among economists that this latest wave of immigration has delivered this anticipated wage effect. The disagreement is over its intensity.

Among the most influential observations on how the wage effect may not be so significant are:

- Robert Topel, an economist at the University of Chicago, said

in a 1997 paper that, “Most evidence suggests that the effects of immigration on wages have been minor,” principally because the size of immigrant labor was still too small to have much effect.

- David Card, an economist at the University of California at Berkeley, in a 2001 study, found only small impacts on local unemployment and on native-born wages in areas where there was a sudden inflow of immigrants seeking jobs. Another Card study in 2005 similarly finds “evidence that immigrants have harmed the opportunities of less educated natives is scant.”

And the leading studies that point to possibly significant effects are:

- A 1997 report by a panel of demographers and economists for the National Academy of Sciences estimated that the 4 percent increase in labor supply during the 1980s (driven in large part by immigration) “could have reduced the wages of all competing native-born workers by about 1 or 2 percent.”
- Harvard University economists George Borjas and Lawrence Katz give the upper bound wage effect in a 2005

paper. They looked at the effect of immigration on native-born wages between 1980 and 2000 and saw a 3 percent decline for average workers and as much as 8 percent for high school dropouts.

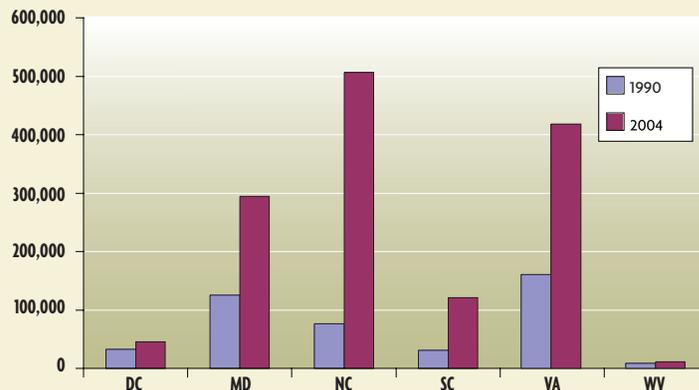
Granted, none of these studies distinguished between illegal and legal immigration. But that’s because to economists, the distinction isn’t all that important. Immigrants represent a new pool of labor, whether they’re here legally or illegally.

Referring to his own studies, Borjas (who migrated from Cuba as a child) says it’s a simple function of supply and demand. “You have more labor coming in, in the short run, holding all other things equal, it will create a decline in the wage level,” Borjas says in an interview. “It’s also a distributional impact. The wage of those workers who supply the most labor will fall relative to the wage of the workers who don’t have a huge increase in labor supply.”

Ethan Lewis, an economist at the Philadelphia Fed who studies immigration, grants that some less-skilled U.S. workers may see their wages drop by a small amount. But he takes a big-picture perspective. “For native-borns in general,” Lewis says, the impact of immigration (both legal and illegal) is “positive. The reason, of course, is that most Americans are not as unskilled as

Growth in the Hispanic Population

While the number of Hispanics living in the United States has almost doubled since 1990, from 22.4 million to 40.5 million, growth in some Fifth District states has been even greater.



SOURCES: U.S. Census; Pew Hispanic Center

Hispanic immigrants. So mostly, they're tilting the wage structure favorably for native-born workers who tend to be more skilled."

But this does not answer other concerns about the costs imposed by illegal immigrants. Do they drain resources from hospitals, K-12 public schools, and corrections facilities?

The Center for Immigration Studies, a nonprofit group that wants fewer immigrants, said that households headed by illegal immigrants in 2002 cost the federal government about \$26.3 billion but paid only \$16 billion in taxes. That equates to each illegal household costing the government \$2,700 a year.

Jeff Passel, a demographer with the Pew Hispanic Center, for one, is skeptical of that figure. He says that his study of the New York metro area found that while natives and legal immigrants paid about 30 percent of their income in taxes, enough illegals were on the books that their overall tax rate (even including those who are paid off the books and thus don't pay taxes) worked out to 20 percent — not as big a difference as conventional wisdom or the Center for Immigration Studies has it.

Another myth is that immigrants arrive in the United States to collect welfare payments; in reality, they are not eligible for them. They come to work, and about 90 percent of the nation's undocumented immigrants are in fact working. What's more, the majority of them are paying payroll taxes and contributing to Social Security (an estimated \$6 billion each year), even though — because they are illegal — they are ineligible to claim these benefits.

Moreover, immigrants have many other positive impacts on the economy. If employers are able to keep wages down by hiring illegal immigrants, then presumably they pass on those savings to consumers in the form of lower prices for the goods and services that rely most heavily on immigrant labor. (The overall impact on the economy of these lower prices may not be so great, however, with some oft-cited

Size of Unauthorized Population – 2004

Illegal immigrants increasingly are coming to Fifth District locations to settle.

DC	20,000-35,000
MD	200,000-250,000
NC	300,000
SC	20,000-35,000
VA	200,000-250,000
WV	<10,000
U.S.	11.5M

SOURCE: Pew Hispanic Center

studies putting the savings at about one-tenth of 1 percent of Gross Domestic Product.) In addition, illegal immigrants themselves add to consumption, though by how much depends on which study you consult, and estimates vary.

New Immigrant Destinations

The impact of illegal immigration is increasingly relevant in the Fifth District. Today's undocumented immigrants are traveling far beyond traditional destinations like California, New York, Texas, and Florida. Passel says a principal trend he sees today is that illegal immigrants, while still making California their top destination, are seeking out new places to work and settle. The percentage of illegal immigrants going from Mexico to California has dropped from 33 percent to 22 percent in the past decade.

In 2004, about 300,000 illegal immigrants came directly to what Passel terms the "New Growth States," areas where immigrants have only recently started moving to in large numbers. Among these are North Carolina, Virginia, and Maryland. Arguably no state has experienced an overall immigration impact as large as North Carolina over the past 15 years. Its Hispanic population since 1990 has swelled more than sixfold to an estimated 600,000. Its growth rate of Hispanics in the late 1990s was the fastest in the nation.

Today, almost half of the state's Hispanic population is thought to be

unauthorized migrants. Earlier this year, the North Carolina Bankers Association, believing it was looking at a largely untapped business opportunity, commissioned a study that tried to peg the net economic impact of Hispanic immigrants (both legal and illegal) on North Carolina. The authors estimated that the spending by the state's Hispanics had a \$9.2 billion impact in 2004. In all, their presence and work created 89,600 jobs in the North Carolina economy, the study finds.

In addition, Hispanics were found to pay about \$756 million in taxes. (By the authors' estimate, 65 percent of illegal immigrants nonetheless are working "on the books," and thus getting taxes taken out of their paychecks. This estimate is in line with other national studies.) The tax boost almost entirely offset the costs of illegal immigrants to the state budget. Namely, costs for K-12 education, health care (usually delivered in hospital emergency rooms), and jail, totaling \$817 million.

Jim Johnson, a University of North Carolina business professor and a study co-author, argues that immigrants, whether legal or illegal, actually help improve the welfare of native-borns. "Hispanics did a couple of things," Johnson says. "They were filling newly created jobs and filling vacancies as native-borns moved up in the queue. Does that mean they're taking jobs that natives don't want? Yes."

This line of reasoning in part gives rise to the most provocative claims the study makes: that Hispanic immigrants of all stripes virtually saved the state's construction industry. In 2005, there were an estimated 111,630 Hispanics working in construction in North Carolina, the study found, accounting for almost half the state's total workers in that industry. Johnson says that absent the legal and illegal immigrant labor, the value of North Carolina construction work would have been cut by 29 percent (ignoring labor substitution effects). This is based on the assumption that

the immigrants drove down wages by about \$1.9 billion, sometimes allowing (such as in the case of home building) employers to keep their prices to consumers lower and not lose business to out-of-state firms employing immigrant (or lower-cost) labor themselves.

This claim is difficult to prove, however. Borjas, for one, is skeptical. "I have no idea what that means that you 'save an industry' with immigrant labor. It makes construction cheaper, yes, which makes construction more profitable as a business. But it doesn't save the industry. It just makes people who employ immigrants laugh all the way to the bank."

Granted, in a competitive market employers must eventually pass on their cost savings to consumers. But Borjas notes that this passing on of cost savings is not immediate and not complete. He asks rhetorically that if all savings really were passed on to consumers: "Why do employers lobby for more immigration? Why would they care? I think the answer is obvious."

Lewis, too, has doubts about the precision of the North Carolina estimate. Though he agrees that the state's construction costs would go up and output down in the absence of immigrant labor, the 29 percent estimate is "probably a bit exaggerated." That's because Hispanic workers (whether documented or undocumented) probably aren't responsible for the full 29 percent of output even if they represent 29 percent of employment. Also, eventually equipment could be brought in to do some

of the work of the lost Hispanic workers, Lewis says, though this would take time and certainly cause a short-term impact on the sector.

Eye of the Beholder

On balance, all these studies on the economic impact of immigration, even those that look directly at the illegal sort, portray a mixed bag of costs and benefits. Borjas, who worries more than other economists about illegal immigrants, believes that immigrant labor on net is "a wash" for the U.S. economy. There may be important policy questions posed by immigrants — from border security to national identity — but these mostly fall outside the purview of economics.

And what about the impact of illegal immigration on immigrants themselves? Almost everything you need to know is this: Studies have found that immigrants earn between double to 30 times their homeland wages, depending on their occupation. A study by University of California at Davis economist Edward Taylor found that Mexican immigrants left behind homes where average per-capita income was \$1,372 per year.

This is why even those who know they could be arrested upon arrival risk their treacherous journeys across the border. It may not be so much that opportunity is so great here as it is that back home is simply much worse. And for the most part, immigrants find opportunity here, no matter whether they come with the proper papers or not. Though about 15 percent of newly arrived undocumented Mexican immi-

grants were without work during their first six months here, unemployment rates fall to 5.7 percent — close to or better than native-born rates — after that.

"The real question is why more aren't coming," says the Pew Hispanic Center's Passel. "Especially with regard to Mexico compared to California, there's a huge wage differential."

These gains come despite the fact that being illegal in the United States exacerbates the difficulties immigrants encounter in trying to raise their wages. Patricia Cortes, as a Ph.D. candidate at M.I.T., found that a 10 percent increase in the share of low-skilled (read, illegal) immigrants in the work force lowers wages for other low-skilled migrants by 8 percent, compared with a 0.6 percent reduction for low-skilled natives. Unauthorized migrant pay tends to stay low, perhaps because these workers lack bargaining power and are unable to move up to higher-paying jobs strictly because of their illegal status.

An illegal immigrant like Manuel, who recently turned up at the Mexican consulate in Raleigh, is thinking principally about his own short-term survival. He came to the United States about one year ago and now works as a landscaper, taking home about \$300 a week. Those earnings would place him below the poverty line.

By mainstream American standards, it's not exactly prosperity. But to him, it's all relative. "Everything is nice here," Manuel says. "Things are good." **RF**

READINGS

Borjas, George J., and Lawrence Katz. "The Evolution of the Mexican-Born Workforce in the United States." National Bureau of Economic Research Working Paper no. 11281, April 2005.

Card, David. "Immigration Inflows, Native Outflows, and the Local Labor Market Impacts of Higher Immigration." *Journal of Labor Economics*, January 2001, vol. 19, no. 1, pp. 22-64.

Lewis, Ethan. "How Do Local Labor Markets in the U.S. Adjust to Immigration?" Federal Reserve Bank of Philadelphia *Business Review*, First Quarter 2005, pp. 16-25.

The National Academy of Sciences. "The New Americans: Economic, Demographic and Fiscal Effects of Immigration." Washington, D.C.: National Academy Press, 1997.

Passel, Jeffrey S. "Size and Characteristics of the Unauthorized Migrant Population in the U.S." Pew Hispanic Center, March 7, 2006.