

ECONOMIC ASPECTS OF AUTHORIZED AND UNAUTHORIZED IMMIGRATION

By Dorrit Marks

Over the years U.S. economic growth has accommodated an expanding labor supply that includes 1.5 million immigrants per year whose spending on homes and consumer goods has stimulated the economy and increased the demand for still more labor. Economists expect this demand to create millions of new jobs in the future at the same time that the workforce is decreasing as a result of declining fertility rates among the native-born and retiring baby boomers. Many see new immigrants as a necessary labor source to meet these increased needs.¹

Effect on American Workers and Their Wages

Do immigrants hurt the economic prospects of American workers? Do they lower wages?

The effect of immigrants on the economic prospects of American workers is an important factor in the national debate on immigration. George Borjas, a Cuban immigrant and pre-eminent scholar in immigration research at Harvard University, believes that more job seekers from abroad result in fewer opportunities and lower wages for Americans. Borjas says that poorly educated Mexicans hurt the economic prospects of poorer Americans, especially African Americans.²

Borjas's research divides workers by education and work experience, and compares immigrants to natives in each category. His research indicates that between the years 1980-2000 immigrants were the cause of about a 3 percent reduction in wages. Furthermore, wages for high school drop-outs were reduced by about 8 percent.

David Card, immigration researcher and economist at the University of California, Berkeley, presents research results to counter Borjas' arguments. Card compares wage trends in cities with large immigrant populations to cities having few immigrants and finds very little wage difference.³

In addition, Card studied the impact of the 1980 Mariel boatlift. In that year, 125,000 Cubans came to Miami, adding to the city's already sizeable Cuban immigrant population. He compared wages in Miami with those in a 'control group' of cities, Tampa, Atlanta, Houston and Los Angeles, and found that by 1985 black unemployment in Miami was lower than it had been in 1979, while unemployment in the control cities remained higher during that same period. Based on this research, Card concludes that Mariel immigrants had almost no effect on wages or on unemployment rates of less-skilled workers in Miami.⁴

The relationship between immigration and wages is not clear cut because it can't be reduced to a simple one-to-one relationship. Wages depend on the supply of capital creating new jobs as well as the supply of labor. A greater supply of immigrant workers and the resultant cheaper cost of labor increases the return to employers. They then could build new factories or open additional service facilities, ultimately creating an increased demand for workers. An article in *The Economist* concludes that neither of these studies is decisive, but "taken together they suggest

that immigration, in the long run, has had only a small negative effect on the pay of America's least skilled and even that is arguable."⁵

Cost and Benefits

In North Carolina, a state with a fast-growing immigrant population, immigrants contribute more to economic growth than to the cost of public services. Over the past decade, foreign workers filled one-third of new jobs in North Carolina and cost the state much less than their contribution to the economy. A comparison of the cost of supplying public services to immigrants with the income from their taxes resulted in a net cost to the state of \$61 million. This is miniscule, however, compared to the immigrants' sizeable overall \$11 billion contribution to economic expansion in the state.

Over the past decade, immigrants filled more than half of all new jobs across the U.S., even more in some parts of the country—two-thirds in the Midwest and Southwest. On average, the additional tax burden per native household is no more than a couple of hundred dollars a year. However, the tax burden caused by immigrants can be large where the proportion of immigrants to the total population is exceptionally high. For example, in California the tax burden in the mid-1990s was \$1,178 per native-born household, the highest in the nation.⁶

The effect of authorized and unauthorized immigrants on public-sector budgets is small. Immigrant workers pay into social insurance programs, lessening strains on social assistance for the elderly. Many unauthorized workers use false ID numbers and pay Social Security taxes but are not eligible to receive benefits. Fewer than 3 percent of immigrants receive food stamps. Unauthorized workers support local school districts, indirectly as rent payers or directly as homeowners through property taxes. They are a financial burden for hospitals and jails, but this is applicable to all low income, uninsured populations as a whole – unauthorized, authorized, and native-born.⁷

Fiscal Pressure on State and Local Budgets

1996 Welfare reform restricted immigrant access to many public benefits, such as, Supplementary Security Income (SSI) and federal food stamps. Immigrants (authorized or unauthorized) are not barred from public education, the largest public expenditure item. Net fiscal transfer from natives to immigrants at the national level is small, albeit higher in certain states that have both generous welfare benefits and large immigrant populations.⁸

An interesting case study measures the costs of immigrants in New York against their fiscal contributions. Tax contributions of legal immigrants in New York State differ substantially from those of unauthorized immigrants, an average of \$6,300 vs. \$2,400. Unauthorized immigrants pay a relatively smaller share of their income in taxes (15 percent) partly because their lower income places them in a lower federal tax bracket. Average annual income differs as well. Legal permanent resident aliens earn an average of \$18,700; refugees, \$8,300; and unauthorized immigrants, \$12,000. A large part of their tax payments go to the federal government; yet public education, the most expensive public service, is paid for at local and state levels.⁹

A recent report issued by the Texas State Comptroller estimates that the 1.4 million unauthorized immigrants in Texas are improving the Texas economy by \$17.7 billion a year, but this is unevenly divided between state and local communities. State costs are \$1.15 billion and contributions in the form of state taxes and revenues are \$1.58 billion, yielding the state a net profit of \$430 million. On the other hand, local costs are \$1.44 billion and contributions are only \$513 million, resulting in a considerable loss to cities and counties. The complete report is at <http://www.window.state.tx.us/>

Cited studies and reports indicate that costs and benefits are not evenly allocated. Taxes paid to the federal government and added productivity of the macro economy make immigration a net benefit to the country as a whole. But, at the local level, communities face demands for costly services from immigrants, particularly in education and health care, that are not offset by tax income.¹⁰

The Influx of Unauthorized, Less Skilled Labor

Nationwide attention focuses on immigration largely because of the growing number of unauthorized immigrants in the U.S. – an estimated 10 to 12 million persons, making up nearly one-third of the foreign-born population, with a growth rate of approximately 500,000 per year. The influx of unauthorized immigrants is primarily a response to laws of supply and demand. The number of authorized immigrants cannot meet the demand for labor. Filling workforce openings, many of which are year-round, permanent jobs has proven more powerful than immigration enforcement. To a lesser degree, unauthorized immigration is also a response to the difficulty and time delays associated with immigrating legally.¹¹

On the whole, immigrants are young, mobile, hard workers who, for a variety of reasons, are willing to work at jobs shunned by native-born workers. According to Jacoby, the addition of more low-skilled immigrant construction workers results in greater demand and higher wages for skilled construction workers such as plumbers, electricians and architects. Immigrant workers tend to raise wages rather than lower them because they tend to complement rather than compete with most native-born workers.¹²

The CEO of the National Association of Home Builders estimates 25 to 30 percent of construction workers are immigrants (authorized and unauthorized). Removing these immigrants from the workforce would produce a serious negative impact. Construction costs would rise, causing a decreased demand for new housing.¹³

Andrew Sum, director of labor studies at Northeastern University, Boston, argues that the large supply of immigrants has displaced low-skilled, native-born workers, particularly the young and poor, from jobs. He does concede that unauthorized immigrants have had a positive effect on the country's economy and have helped improve productivity of highly skilled workers. "Without the immigrants, we would have a decline in labor force of 3 to 4 percent. We couldn't have grown nearly as much as we did in the '90s if we didn't have immigrants. Still, he argues, "...we've ignored that illegal immigration has put a lot of young adults into economic jeopardy."¹⁴

Mexican Workers

During the 1990s, the U.S. workforce absorbed 2.9 million Mexican workers. At the same time, the unemployment rate fell from 6.3 percent to 3.9 percent. This influx of Mexicans gave American employers access to needed workers in a tight labor market. Owners and managers of factories, restaurants, hotels, construction firms, hospitals, orchards and innumerable other places of employment express a need for continued access to immigrant workers, mostly from Mexico. Although many Mexican immigrants lack formal education, they have skills compatible with available jobs. For instance, it is estimated that by 2010 nearly 43 percent of all job openings will require only minimal education. At the same time, native-born Americans are obtaining college degrees in record numbers and are unlikely to accept positions requiring just minimal education.¹⁵

Other researchers disagree and find that the large influx of immigrants from Mexico has adversely affected the wages of less-educated native-born workers and improved the earnings of college graduates. Low Mexican wages, in turn, helped lower prices of non-traded goods and services. Largely due to lower levels of education, the economic performance of Mexican immigrants lags considerably behind other immigrant groups and native-born workers. Non-Mexican immigrants' earnings begin to converge with that of native-born workers as they accumulate work experience, but the correlation is weaker for Mexican immigrants.¹⁶

High-Skilled Immigrants

Immigrants make a large contribution in high-skilled occupations in the U.S. There is increasing global competition for skilled professionals as well as competition to attract foreign students to graduate studies. Skilled foreign-born persons make up an ever-increasing portion of the skilled workforce in the United States - 8 percent of 25-year-old or older skilled persons in the U.S. in 1990, 13 percent in 2000, and 15 percent in 2004.

The steady supply of skilled immigrants is important for the U.S. economy because these immigrants bring skills that are in short supply in this country. They raise productivity and, with their demand for goods and services, they help create additional jobs for the native-born. More than half of U.S. Nobel prize winners are foreign-born and have made exceptional contributions in the fields of science and engineering. In California's Silicon Valley, 29 percent of technology firms were started and run by Chinese or Indians between 1995 and 1998.¹⁷

Immigrants have had a profound impact on company creation, economic innovation and market value in the United States. Over the past 15 years, immigrants have founded one of every four (25 percent) U.S. public companies that received venture capital. Forty-seven percent of current venture-backed companies in the U.S. have immigrant founders. Nearly half of immigrant entrepreneurs in the survey came to the U.S. as students and started their own businesses within 12 years of entering the country.¹⁸

Borjas finds that foreign students receiving PhDs can adversely affect the earnings of native-born students earning doctorates in the same field by 3 percent. On the other hand, Madeline Zavodny found the inflow of high-skilled professionals did not depress wages of other technology

workers. Another study by Jeanne Batalova concludes that having a larger number of immigrants in the same job results in higher earnings for skilled men and women, but notes that there is a tipping point beyond which additional immigrant workers result in a decline in earnings for all workers.¹⁹

Looking Forward

Demographers expect to see increasing numbers of authorized and unauthorized immigrants coming to the U.S. in future years. New arrivals, mostly from Latin America and Asia, will spend money in the U.S. and increase earnings for businesses such as discount retailers, apartment building owners and home builders.²⁰ In addition many experts believe that young, tax-paying immigrants will help meet increasing labor needs resulting from a growing economy and a declining native-born workforce.²¹ Productive immigration discussions must include the impact of immigrants on the country's economy – their contributions as well as the costs.

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¹ Doris Meissner *et al*, *Immigration and America's Future: A New Chapter*, (Migration Policy Institute, 2006), p. 3.

² Roger Lowenstein, "The Immigration Equation," *The New York Times Magazine*, July, 9, 2006, p. 38.

³ "Myths and migration," *The Economist*, April 6, 2006 [Finance and Economics/ Economics Focus],

⁴ Lowenstein, "Immigration Equation," p. 41.

⁵ "Myths and migration"

⁶ Tamar Jacoby, "Immigrant Nation," *Foreign Affairs*, November/December 2006.

⁷ Lowenstein, "Immigration Equation," p. 39.

⁸ Gordon Hanson, Kenneth Scheve, Matthew Slaughter, and Antonio Spilimbergo, "Immigration and the U.S. Economy: Labor-Market Impacts, Illegal Entry, and Policy Choices," 2001 working paper, Google / SSRN publications.

⁹ Jeffrey Passel and Rebecca Clark, "Immigrants in New York: Their Legal Status," 1998, www.urban.org/publications.

¹⁰ Meissner, *Immigration and America's Future*, p.25.

¹¹ Meissner, *Immigration and America's Future*, pp. 19-22.

¹² Jacoby, "Immigrant Nation."

¹³ Chris Isidore, "Illegal Workers: good for U.S. economy," May 1, 2006, www.CNNMoney.com.

¹⁴ Isidore, CNN Money.

¹⁵ The American Immigration Law Foundation (AILF), *Immigration Policy Focus*, Vol. 1. Issue 2, "Mexican Immigrant Workers and the U.S. Economy –An Increasingly Vital Role," September 2002.

¹⁶ George Borjas, Lawrence Katz, *National Bureau of Economic Research (NBER) Working Paper 11281*, "The Evolution of the Mexican-Born Workforce in the United States," April 2005, pp. 4, 42-43.

¹⁷ Neeraj Kaushal, Michael Fix, "The Contributions of High-Skilled Immigrants," *Migration Policy Institute*, (MPI) study No. 16, July 2006, pp. 1, 4, 15.

¹⁸ "Immigrants Have Founded 1 in 4 Public Venture-Backed Companies in the U.S. since 1990, Finds First-Ever Study," *PRNewswire*, November 15, 2006, pp. 1-2.

¹⁹ Kaushal, "The Contributions of High-Skilled Immigrants," p. 13. Also see: Anderson Stuart, "The Debate Over Quotas on Highly-Skilled Legal Immigrants," *Frontlines*, November 12, 2006, p.1.

²⁰ Reshma Kapadia, "Suarez-Orozco Looks at the Economic Impact of U.S. Immigration: U.S. Immigration could spell big business," *Reuters*, January 21, 2005.

²¹ Meissner, *Immigration and America's Future*, p. 4.