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Hearing on the U.S. Economy, U.S. Workers, and Immigration Reform

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Thank you, Chairwoman Lofgren and Ranking Member King, for the opportunity to appear before the Subcommittee. I am a labor economist at Brown University. My research specialty is the economics of immigration.

When we think about the impact of immigration on American workers, there are two principal dimensions to consider: jobs and wages.

To summarize, the academic literature finds that immigration does not have a negative effect on the employment of native-born workers. There is some debate about the impact on wages, but most studies have found the effect to be small.

The field of Economics has two things to offer: Theory and evidence.

Theory

Economic theory predicts that, when the supply of something goes up, its price will fall. So will the price of things that are close substitutes. On the other hand, there will be an increase in the price of things that are used in combination with it, i.e., complements.

So for example, if the supply of lettuce pickers in the United States increases through immigration, theory predicts that the wages of lettuce pickers in the United States will fall. So will the wages of workers with similar skills. But there will be an increase in the earnings of lettuce growers, truck drivers, supermarket stockers, and restaurant workers, all of whom work with lettuce pickers to put lettuce on our dinner tables.

Theory predicts the same pattern for employment: Immigration will make it harder for native-born lettuce pickers and those with similar skills to find work. But it will also create more jobs for supermarket and restaurant workers.

Finally, because immigrants not only work, but also spend money, the increased demand for goods and services will create jobs and raise wages throughout the economy.

Economic theory tells us the direction of these various effects. However, theory alone cannot tell us anything about their magnitude.

Evidence

To gauge the size of these effects, we need data. We need to observe and analyze cases of immigration and the changes it brought about. It is challenging to devise an empirical strategy that adequately accounts for the complexity of the economic forces at play.

One approach compares the wages and unemployment rates of people in geographic areas with more versus fewer immigrants. One issue here is that if we see cities with a lot of immigrants booming, we don't know if the immigrants caused the economic boom, or if it was the boom that attracted immigrants there in the first place. When studies take into account the fact that immigrants seek out places with better opportunities, they still find no impact on native employment. The estimated impact on native wages is small. A 10% increase in immigration is found to lower wages by at most 1%. A concern with this approach is the possibility that the free flows of goods, workers, or capital within the country could spread immigration's consequences to other cities, blunting the cross-city variation in outcomes resulting from immigration.

A second empirical approach does something similar, but rather than comparing across geographic areas, it divides the national workforce into groups defined by their level of education and work experience. This approach then asks whether natives in education-experience groups into which there has been more immigration have had worse labor market outcomes, compared to other natives. These studies find somewhat larger effects on wages, with a 10% increase in immigration lowering native wages by 2-4%. Similar studies that take into account the increase in capital investment that takes place in response to immigration actually find a positive effect of immigration on native wages.

A final empirical approach analyzes cases in which history has given us something close to a lab experiment, cases in which a large number of people left one country for another, driven by forces other than economic conditions in their destination. One example is the 1980 Mariel Boatlift, when about 125,000 people left Cuba for Miami. This exodus occurred because people were suddenly allowed to leave Cuba, and Miami was the closest destination. Following the Boatlift, did natives in Miami do worse, compared to natives in Houston or Los Angeles or Atlanta (whom we can think of as the control group in this experiment)? The answer is no. Natives in Miami—including African-Americans— did not in fact experience higher unemployment, lower employment, or slower wage growth than similar natives in other cities.

These findings have been supported by studies of other “natural experiments” from different countries and time periods. These include the return of colonialists to France following Algerian independence in 1962; a similar return migration of Portuguese colonialists from Africa in 1974; and my own work on the mass migration of Russian Jews to Israel in the early 1990s, which compares the outcomes of natives in occupations that received more versus fewer immigrants. None of these studies finds a significant negative effect of immigration on native employment or wages.

To summarize: The empirical literature finds no evidence of a negative effect of immigration on native employment. And while there is not a clear consensus about wages, most studies point to small effects.

Other Dimensions

Americans are not only workers. We are also consumers, employers, and taxpayers. How does immigration affect us in these roles?

As consumers, we benefit from the lower prices of goods and services that result from immigrant labor. As employers, we gain from the higher return to capital that results from an increase in the size of the labor force. This is true for other owners of capital as well, e.g., people with money in the bank or the stock market. Employers also gain from the increased demand for their products.

How do immigrants affect us as taxpayers? On the one hand, immigrants use government-funded services, such as schools and hospital emergency rooms. Depending on the state, legal immigrants who satisfy certain conditions also have some access to means-tested programs like TANF and Medicaid, and once naturalized, are eligible for the same public assistance as natives. On the other hand, immigrants pay taxes—income, payroll, sales, property, and so on.

How does the extra spending compare to the extra revenue? The evidence on this issue is not clear cut. Some groups of immigrants clearly impose a fiscal burden on the cities and states where they live. At the federal level, however, the foreign-born yield a net fiscal benefit. Furthermore, the positive effect at the federal level has been found to outweigh the negative effect at the state and local level. Estimates of the long-run impact of immigration on the overall fiscal balance suggest a positive effect, as the children of immigrants— who impose costs today— begin to work and pay taxes.