THE WALL STREET JOURNAL. ONLINE

April 18, 2006

COMMENTARY

For a Few Dollars Less

By GEORGE J. BORJAS
April 18, 2006; Page A18

What happens when immigrants enter the labor market? The 1964 edition of Paul Samuelson's influential introductory economics textbook gives the common-sense answer: "By keeping labor supply down, immigration policy tends to keep wages high. Let us underline this basic principle: Limitation of the supply of any grade of labor relative to all other productive factors can be expected to raise its wage rate; an increase in supply will, other things being equal, tend to depress wage rates." Mr. Samuelson wrote this just before the 1965 policy shift that sparked the resurgence of immigration, so he emphasized that restrictions "keep wages high." Today we are concerned with the mirror-image implication: As immigration increases the size of a skill group (such as low-educated workers), the wage paid to that group should fall.

Despite the intuition behind Mr. Samuelson's conclusion, economists have found it surprisingly difficult to document that immigration does, in fact, lower the wage of competing workers. In 1997, the National Academy of Sciences concluded that "the weight of the empirical evidence suggests that the impact of immigration on the wages of competing native workers is small."

Markets Work
Percentage wage change attributable to 1980-2000 immigrant influx

	SHORT RUN	LONG RUN
All Workers	-3.3%	0.1%
High school dropouts	-8.2	-4.8
High school graduates	-2.2	1.1
Some college	-2.6	0.8
College graduates	-3.8	-0.5

Source: George J. Borjas and Lawrence Katz, "The Evolution of the Mexican-Born Workforce in the United States," National Bureau of Economic Research Working paper, 2005

Recent research has finally begun to demolish the peculiar (yet influential) notion that an influx of more than 16 million foreign-born workers, which increased the size of the workforce by nearly 15%, had little impact on wages. In part, the problem has been that economists were looking for the wage effect in all the wrong places.

Immigrants cluster in a small number of cities. A third live in three metropolitan areas (New York, Los Angeles and Chicago). In the past, the stereotypical study exploited this clustering by correlating wages and immigration across cities. A negative correlation, indicating that wages are lower in cities penetrated by immigrants, would suggest that immigrants reduce the wage of competing workers. In fact, the estimated correlations bunched around zero, creating the impression that immigrants had little impact.

This inference is not correct for two reasons. First, immigrants are not randomly distributed across cities. If, as seems sensible, high-wage areas attract immigrants, there would be a spurious positive correlation between immigration and wages. This positive correlation could easily swamp any negative wage effect that immigrants might have had.

Natives also respond to immigration. Employers in Michigan, for example, see that Southern California cities flooded by low-skill immigrants pay lower wages to laborers. The employers will want to relocate to those cities to increase their profits. The flow of jobs to the immigrant-hit areas cushions the adverse effect of immigration on the Southern California wage, while slightly worsening conditions in Michigan. Similarly, laborers living in California, who now face stiffer competition, might leave the state to search for better opportunities. These flows of jobs and workers diffuse the impact of immigration across the national economy and tend to equalize economic conditions across localities.

Because local labor markets adjust to immigration, I have argued that the impact of immigration is best measured at the national level. In fact, by examining national wage trends for narrowly defined skill groups for the last 40 years, the wage effects of immigration become quite visible. These trends suggest that a 10% increase in the size of a skill group (for example, a 10% increase in the number of workers who are high school graduates and are around 30 years old) reduces the wage of that group by 3% to 4%.

It turns out that this wage response is roughly what one would have expected to find if one looked at the vast academic literature that estimates adjustments in labor demand (a literature that typically has little to do with immigration). In short, the national wage effects replicate what we think we know about labor demand in the U.S. labor market.

Although immigrants affect the wage of competing workers, they have little impact on the wage of other skill groups. A 10% increase in the number of workers who are young high school dropouts, for example, raises the wage of college graduates by only half of 1%. High-skill workers have little to gain, at least in the labor market, from the immigration of low-skill workers.

My Harvard colleague Lawrence Katz and I recently examined the impact of the 1980-2000 immigrant influx (and particularly Mexican-origin immigration) for U.S. wages. The results are that, in the short run -- holding all other things equal -- immigration lowered the wage of native workers, particularly of those workers with the least education. The wage fell by 3% for the average worker and by 8% for high school dropouts.

The "all other things equal" assumption is not sensible from a long-run perspective. Over time, employers will certainly make capital investments to take advantage of the cheaper labor. This adjustment implies that, in the long run, the average worker is not affected by immigration, but the wage of high school dropouts still fell by 5%.

These effects imply sizable reductions in annual earnings for low-skill workers. In 2000, the typical high school dropout earned $25,000, so that immigration reduced his earnings by $1,200, even after all capital adjustments take place. Mr. Katz and I also examined how much was due to Mexican immigration. We calculated what the wage effects would have been had there been no Mexican immigration between 1980 and 2000. We found that Mexican immigration, which is predominantly low-skill, accounts for all of the adverse impact of immigration on low-skill natives.

National wage trends confirm the common-sense notion that immigration has labor market consequences: A larger pool of competing workers lowers relative wages. This does not imply that immigration is a net loss for the economy. After all, the wage losses suffered by workers show up as higher profits to employers and, eventually, as lower prices to consumers. Immigration policy is just another redistribution program. In the short run, it transfers wealth from one group (workers) to another (employers). Whether or not such transfers are desirable is one of the central questions in the immigration debate.

Mr. Borjas is the Robert W. Scrivner Professor of Economics and Social Policy at the Kennedy School of Government at Harvard.

URL for this article:
http://online.wsj.com/article/SB114532411823528296.html