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COMMENTARY

The Impact of Immigration

 By **PIA ORRENIUS**
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On a recent Sunday in Dallas, half a million people marched for the opportunity to work legally in the U.S. It was a striking contrast to some other countries, where workers have protested so they might work less, not more.


The stereotype of the hard-working immigrant still rings true in our country. Male immigrants have labor force participation rates of 81%, exceeding U.S.-born men's participation rate of 72%. Illegal immigrant men have even higher participation rates -- around 94%, according to the Pew Hispanic Center. In 2005, the average unemployment rate of foreign-born workers stood at 4.6%, slipping below U.S.-born workers' 5.2%. Immigrants have contributed more than half of U.S. labor force growth in the past decade as a result of high immigration rates and their desire to work.

Should we take pride in the work ethic of those who choose to make the U.S. their new home? Or does their labor market success come at the expense of lower wages and higher unemployment for U.S.-born workers? Economists have noted time and again that the effect of immigration on natives' wages is small. In a study with Madeline Zavodny of Agnes Scott College, we found that during the mid- to late-1990s, immigration had a small negative impact on manual laborers' wages -- about 1% -- but did not adversely affect the wages of professionals or service workers.

Our paper follows in the footsteps of widely acclaimed work, such as David Card's study of the Mariel boatlift. Mr. Card, of the University of California, Berkeley, found that the wages and unemployment of low-skilled workers in Miami were largely unaffected by the sudden influx of 45,000 Marielitos into the local labor force. Giovanni Peri of the University of California, Davis, and Gianmarco Ottaviano of the University of Bologna concluded in a study last year that immigration to the U.S. can even have a positive effect on natives' wages when one considers two points: Immigrants are often complementary to native labor and physical capital is not fixed over time.

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Identifying the effect of immigration on wages presents tricky measurement problems. The newcomers naturally migrate to places where the labor demand is greatest and wages are rising -- for example North Carolina or Nevada, computer labs or fast-food outlets. National-level studies try to address this issue by not relying on cross-area variation, but these studies have their own problems as long-term economic trends become difficult to sort out.

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It should not be surprising that most studies find immigrants have little effect on average wages. New immigrants are more likely to compete with each other and with earlier immigrants than with native-born workers. Those just arriving in the U.S. are not close substitutes for U.S. workers, because they typically lack the language skills, educational background and institutional know-how of native-born workers. As immigrants gain this human capital over time they become more substitutable for native workers -- but they also become more productive. It is also important to keep in mind that low-skilled immigrants compete against a dwindling group of native workers. The number of native-born, high-school dropouts has been declining for years as younger workers acquire more education and older, less-skilled workers retire.

Market forces on both the demand and supply sides also mitigate the labor market impact of immigration. With an influx of immigrants, the return on capital rises, spurring investment. Firms also increase production of labor-intensive goods, further dampening any adverse effects on low-skilled native workers.

Meanwhile existing workers, like firms, respond rationally to immigration. Natives and previous immigrants move, upgrade their skills or switch jobs in response to immigrant influxes, much as they do in response to broader market forces, such as the rising skill premium. These responses reduce immigration's negative impact. And as consumers we all benefit from the greater output and lower prices of many goods and services resulting from an immigrant workforce.

We rightly worry about the wages of low-skilled workers, which have been falling in real terms for close to 30 years. Although trade and immigration are often blamed for diminished low-skilled earnings, most research suggests that they have not played a major role. Instead, the evidence points to more pervasive skill-based technological change as the main culprit. Today's production processes increasingly rely on highly educated workers and so the labor market increasingly rewards them.

Changing labor market institutions have also done their part: Falling real minimum wages and a long decline in union rolls have disproportionately affected wages at the low-skilled end of the workforce. But in a climate of fierce global competition, the solution to falling low-skilled wages is not to artificially set U.S. wages higher and risk more unemployment, but rather to invest in the skills of our workforce.

Immigration's impact on wages has little relevance on the debate over how we deal with the 12 million illegals in this country -- because there has been virtually no interior enforcement of immigration laws, these immigrants have largely been incorporated into the labor force, and prices and wages have already responded to their presence. It is estimated that over half of the illegal immigrants are working "on the books," paying income and payroll taxes. Bringing the rest of them into compliance will actually raise the cost of employing them. This aspect of legalization should even the playing field and *help*, not hurt, native-born workers.

The big challenge is not the wage impact of immigration reform, but the fiscal impact of low-skilled immigration: How much do these immigrants cost in public services and how much do they contribute in taxes? How do the costs and contributions change over time as immigrants assimilate? Legalization will raise both costs and contributions, but the net effect depends on the nature of the proposal and the generosity of benefit programs. Some of the costs could be offset by lowering barriers to high-skilled immigrants, who pay far more in taxes than they receive in public services. U.S. taxpayers deserve an objective estimate of what each immigration proposal would cost them in both the short and long runs. The U.S. labor market is flexible enough to accommodate hundreds of thousands of new immigrant workers each year.

While areas and occupations experiencing large influxes of immigrants often feel the pain associated with economic churn, this is not a reason to close our country to individuals eager to work and improve their lives. Instead we should re-examine and celebrate why people choose to come to the U.S. today, as they have done for 230 years.

Ms. Orrenius, a senior economist at the Federal Reserve Bank of Dallas, served on the President's Council of Economic Advisers from 2004-2005.

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