

Does foreign labor hurt U.S.-born workers?

Most economists believe that immigration has an overall salutary effect on the U.S. economy. An influx of labor from abroad increases the domestic workforce, allowing the economy to expand. Low-cost labor benefits consumers by keeping prices of many goods and services low. And gifted immigrants invent new products and found new businesses—think Sergey Brin of Google and Elon Musk of Tesla Motors.

The economic upsides of immigration are apparent in an analysis of the Senate immigration reform bill by the Congressional Budget Office. The July report found that enacting the bill would boost gross domestic product 3 percent and cut the federal budget deficit by \$1 trillion over the next 20 years. Increased government revenues would come from a bigger labor force and additional tax receipts from current illegal immigrants.

But politicians and some economists also worry about potential downsides of immigration, including its impact on U.S.-born workers. One reason that Congress hasn't increased the number of visas and permanent resident "green cards" issued to foreign workers is the perception that immigration reduces the employment and wages of native workers.

Some labor market research has found that, indeed, immigration hurts U.S. workers. In a 2003 study, Harvard University economist George Borjas reported that increased immigration over the past two decades had "substantially worsened the labor market opportunities faced by many native workers," reducing the wage of the average U.S.-born worker by 3 percent and the pay of high school dropouts by 9 percent. A 2010 paper by Borjas and other economists found that a 10 percent rise in workers due to immigration reduced the employment of black men by 6 percent and resulted in higher rates of imprisonment.

Such outcomes make economic sense; given a certain level of demand for labor, increased supply intensifies competition for jobs and exerts downward pressure on earnings. "By keeping labor supply down, immigration policy tends to keep wages high," writes economist Paul Samuelson in his classic textbook *Economics*, commenting on restrictions on immigration in place until the mid-1960s.

But the case for immigrants taking jobs and earnings away from native workers isn't as clear cut as basic economic theory makes it seem. Other studies using different data and methods have found that U.S.-born workers suffer minimal fallout from immigration. "All in all, when you look all at the evidence pointing to a negative effect, it is not very substantial," said Magnus Lofstrom, an economist with the Public Policy Institute of California who has studied the labor market effects of immigration. Many researchers have found that low-skilled workers stand to lose the most from increased immigration, although even for this group the impact is quite small.

A 2011 study of U.S. states with different levels of immigration by Giovanni Peri of the University

of California, Davis found that foreign-born labor had a negligible effect on the employment and wages of unskilled native workers. Highly educated workers saw their wages increase. Earlier studies by David Card of UC, Berkeley, Pia Orrenius of the Federal Reserve Bank of Dallas and other economists have shown that immigration reduces the wages of U.S.-born low-skilled workers by no more than 3 percent while having little impact on medium- and high-skilled native workers.

Substitute or supplement?

Why do these studies find a modest impact on native-born workers from immigration, in contrast to the more adverse effects identified by Borjas and other researchers? In large part, the immigrant effect on U.S.-born workers depends on the extent to which immigrant labor substitutes for the domestic variety. Many economists believe that, because the majority of immigrants have low skills, they don't compete for the types of jobs sought by most Americans. Instead, in the district and across the country, they work in low-wage industries such as agriculture, food processing and building maintenance.

It's likely that more native workers would vie for those positions if employers paid higher wages. But "it's quite clear that current wage levels are not sufficient to attract [U.S.-born] workers who are willing to do the work for a prolonged period of time," Lofstrom notes. Significant pay raises would entail structural upheaval in sectors such as agriculture, which relies on inexpensive labor to compete with imported food.

But what about elite foreign workers—computer programmers, engineers, financial analysts and others in the same industries and wage classes as many U.S.-born workers? Proposals to raise caps on guest worker visas have elicited concern about the impact of H-1B workers on native employment and wages. As in the broader debate over immigrant labor, experts beg to differ on the matter. Some see H-1B workers displacing their U.S.-born counterparts or depressing their pay; others find little impact on the high-skilled native workforce.

Much of the debate focuses on whether there is a shortage of U.S.-born workers in science, technology, engineering and math (STEM) fields, which account for roughly two-thirds of visa requests nationwide. If U.S. universities aren't producing enough STEM graduates to meet employer demand, foreigners with the requisite skills are supplementing the homegrown tech workforce, not supplanting it.

Some analyses of the high-tech labor market suggest that the STEM shortage is a myth. One study published earlier this year by the Economic Policy Institute (EPI), a Washington-based think tank, concluded that the country has "more than a sufficient supply of workers available to work in STEM occupations." Noting that average wages in information technology fields have stagnated

or declined in recent years, the study implied that higher inflows of H-1B workers over the past decade have furnished U.S. firms with cheap labor, crowding out U.S.-born workers.

Other researchers contend that the STEM shortage is real, that H-1Bs are taking jobs that would otherwise go unfilled. The Brookings Institution, another Washington think tank, refuted EPI's conclusions in a May publication, finding that employers in large metro areas—including Minneapolis-St. Paul—struggle to fill vacant STEM positions. Lofstrom's research on the earnings of H-1B workers has shown that their wages are comparatively high, suggesting that firms hire them to "bring in skills and expertise that help the companies innovate and grow," not to save money on payroll, he said.

But he added that it's possible that the availability of H-1B workers has stunted the earnings growth of U.S. born workers in STEM occupations. And no one knows how native employment and wages would be affected if caps on H-1B visas and permanent resident "green cards" issued to foreign workers were raised, as called for by the Senate immigration bill.

The immigration surplus

The bottom line on immigration for U.S.-born workers? The weight of the evidence suggests that foreign-born labor poses a risk to low-skilled native workers and that some high-skilled workers—particularly those of lesser ability—have cause for concern. But for most U.S. workers the benefits of immigration outweigh the costs, because of the uplifting economic effects of foreign labor.

"We know that there are benefits from immigration that result in what we call the immigration surplus, which is an increase in standard of living for natives as a result of immigration," said Orrenius in an interview.

Inflows of foreign low-skilled workers allow increased specialization of labor, with immigrants assigned mainly to manual tasks and U.S. natives performing most jobs requiring proficiency in English. Specialization boosts production efficiency and output—one reason Peri found in his state study that immigration elevated the wages of highly skilled native workers.

Also, by lowering labor costs these inflows increase return on capital, attracting investment and giving businesses the wherewithal to expand and hire more personnel, including native-born workers commanding higher wages.

High-skilled foreign workers lend their talents to technological innovation, spurring job creation at all wage levels. And immigrants, just like people born and raised in the United States, are consumers who create jobs by increasing aggregate demand for goods and services.

—Phil Davies