

# IMMIGRATION POLICY AND LESS-SKILLED WORKERS IN THE UNITED STATES

Reflections on Future  
Directions for Reform



By Harry J. Holzer

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January 2011

## Acknowledgments

The author thanks Michael Fix, Marc Rosenblum, Madeleine Sumption, and other participants in the July 2010 meeting of the Migration Policy Institute (MPI) Labor Markets Advisory Group for helpful and insightful comments.

This paper was written for MPI's Labor Markets Initiative to inform its work on the economics of immigration. The opinions contained in the report are the author's own and do not necessarily represent the views of the Labor Markets Advisory Group or MPI.

MPI is grateful for the generous support of funders for its Labor Markets Initiative, including the Ford Foundation, the Open Society Foundations, and the J.M. Kaplan Fund. For information on the Labor Markets Initiative, please visit [www.migrationpolicy.org/lmi](http://www.migrationpolicy.org/lmi).

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Cover Design and Typesetting: April Siruno, MPI

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Suggested citation: Holzer, Harry J. 2011. *Immigration Policy and Less-Skilled Workers in the United States: Reflections on Future Directions for Reform*. Washington, DC: Migration Policy Institute.



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## Executive Summary

The economic role of less-skilled immigrants is one of the most controversial questions in the immigration debate. Economists have reached a consensus on the benefits of highly skilled immigration, but less-skilled newcomers and the policies that govern their admission and stay continue to provoke disagreement. While less-skilled immigrants bring economic benefits for US consumers, employers, and skilled workers, they impose some costs on US workers (and especially earlier cohorts of immigrants) competing for similar jobs. Many less-skilled workers also find economic integration and upward mobility difficult.

The costs of less-skilled immigration have received significant political and academic attention. Immigration has greatly expanded the number of workers without high school diplomas in the US labor market since the 1980s, but the impact of this expansion on the wages and employment prospects of less-skilled Americans is smaller than one might expect. Even the most negative estimates of the impact on similar US workers suggest that in the long run, immigration accounts for only a small share of the deterioration observed in less-skilled Americans' labor market employment and earnings. In the absence of immigration, wages might rise somewhat in certain occupations and certain areas, but probably not by enough to substantially improve the welfare of less-skilled Americans — including “disconnected” youth and racial minorities.

Some partial explanations for this modest impact include the fact that immigrants also consume US goods and services, increasing the overall demand for labor in the United States; the fact that immigrants are concentrated in jobs requiring limited verbal interaction, where they are more likely to compete with earlier cohorts of immigrants than with the US born; and the fact that employers adjust their production techniques in order to make use of the greater supply of less-skilled labor that immigration generates.

The *benefits* of low-skilled immigration, by contrast, accrue primarily to the employers of low-skilled workers who benefit from paying lower wages and to consumers who purchase the goods and services less-skilled immigrants produce. These benefits flow not just to high-income consumers in the form of cheaper child care, landscaping, and restaurant tabs, but also to low-income consumers in the form of lower prices for and/or greater availability of food, medical care, and housing.

The routes through which immigrants enter the country and the policies that govern their stay shape immigration's economic effects. Unauthorized immigrants, for example, could impose greater costs on American workers competing for the same jobs, since the lack of legal status may hold down their wages and prevent them from leaving exploitative employers; but they might also do more to reduce consumer prices, and their flows are more responsive to fluctuations in employer demand than the flows of authorized immigrants. Admitting some of the current flow of unauthorized immigrants on less-skilled employment-based visas in a way that tracks employer demand could help to mitigate some of the costs associated with less-skilled immigration — especially if these visas allow immigrants to change jobs and create a path to permanent residence, thus reducing the risk of exploitation.

As immigrants integrate socially and economically, the economic benefits and costs they generate also change, not least because the longer immigrants remain in the country and the more they become part of US society, the more their own welfare becomes a significant policy goal. What are the stakes of immigrant integration for US workers? Greater integration and upward mobility in the labor market can bring economic benefits in the form of higher productivity and greater fiscal contributions by immigrants and their children. Upward mobility would also shift some of the competition between immigrants and the US born into “middle-skilled” jobs, a phenomenon which could have both positive and negative implications. The nature and size of any effects of this kind are highly uncertain. On balance, the benefits of encouraging upward mobility over time for low-skilled immigrants likely outweigh the risks.



The complex array of benefits and costs accruing to different sections of the US society and economy makes it impossible to define an “optimal” level of less-skilled immigration. No strong economic argument exists for dramatically altering the number of low-skilled immigrants in the short run, even if policymakers aspire to increase the skill level of incoming cohorts in the future. Moreover, despite a much improved understanding of immigration’s economic impacts, many uncertainties remain — particularly when it comes to the impact of specific changes of policy on immigrants’ and employers’ behavior.

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However, economics does indicate some clear improvements that could be made to the design of the immigration system. Some of these improvements were proposed in unsuccessful legislation in the Senate in 2006 and 2007, including measures to channel currently illegal immigration through legal routes. In any future legislation, economically beneficial features would include: the ability of less-skilled immigrants on employment-based visas to switch employers more easily and to gain a path to citizenship; employer visa fees sufficient to offset some of the costs that low-skilled immigration imposes on American workers in similar jobs and on public finances at the local level; flexibility in the numbers admitted so that flows can respond to macroeconomic conditions and employer demand; and policies that facilitate state-level variation in the design and implementation of immigration policies that better account for regional variation in economic needs and that facilitate better research and policy evaluation in the future.



## I. Introduction

Though comprehensive immigration reform has receded from the public and policy debate, undoubtedly at some point, the United States will have to take up a set of legislative proposals for reform of the still-dysfunctional US immigration system. The usual claims and counterclaims will be made about how legislation would affect the labor market, with advocates on all sides claiming to know its effects with virtual certainty.

In light of this, it is worth reviewing what is known from the research literature on immigration and the labor market and what has yet to be learned. I do so in this report from the personal perspective of a labor economist who has spent time in both the academic and policy worlds.<sup>1</sup> As such, I have some understanding of how good policy can and should be informed by rigorous research, but I also know that policymaking in the real world often requires us to make our best judgments without all the information we would ideally like to have.

This report focuses primarily on immigration in the labor market for less-skilled or less-educated workers in the United States — i.e., those with a high school diploma or less. There seems to be little disagreement among economists and immigration analysts more broadly that attracting and retaining more highly educated foreign “talent” would be beneficial to the US economy,<sup>2</sup> even if these individuals compete somewhat with US-born highly educated workers and graduate students. Highly skilled immigrants clearly add to the potential for economic innovation and national competitiveness, and there seems to be little dispute among respected scholars and analysts about the potential benefits of encouraging more of them to reside here.

In contrast, stronger disagreements characterize the research on the economic costs and benefits of less-educated immigrants, both legal and unauthorized. The most divisive policy proposals in the immigration reform debate also focus on this population.

Accordingly, the report begins with a review of what I consider to be the general goals of US immigration policy, as well as the most important questions that should drive reform. It then turns to the research literature to review the extent to which these questions have or have not been convincingly answered, and also considers a range of policy proposals whose impacts we may or may not be able to predict with some precision. The paper closes with some discussion of how we should proceed on immigration reform in light of what we do and do not know on this topic.

## II. Immigration Reform: General Goals and Primary Questions

Before proceeding to the research literature and to potential areas of agreement and disagreement among analysts, the report begins by considering what ought to be the general goals of immigration policy regarding low-skilled workers. From a purely economic perspective, and one that prioritizes the

1 I served as Chief Economist of the US Department of Labor in the Clinton administration, between my academic stints at Michigan State University and Georgetown University. I also now serve as a fellow at the Urban Institute and Brookings Institution in Washington, DC, and am a member of the Migration Policy Institute’s Labor Markets Advisory Group.

2 See George Borjas, “Assimilation, Changes in Cohort Quality, and the Earnings of Immigrants,” *Journal of Labor Economics* 3, no. 4 (1985): 463-89; Richard B. Freeman, *America Works* (New York: Russell Sage Foundation, 2007a); Jennifer Hunt, “How Much Does Immigration Boost Innovation?” (Montreal, Canada: McGill University, unpublished, 2008); Bertelsmann Stiftung and Migration Policy Institute, eds., *Talent, Competitiveness and Migration* (Gütersloh: Bertelsmann Stiftung and Migration Policy Institute, 2009).



interests of American citizens (whether they are US born or naturalized immigrants), the primary goals of immigration policy should be to:

- maximize the benefits of less-skilled immigration to the productivity of the US economy and the well-being of US consumers;
- minimize the potential costs of such immigration to native-born Americans, especially the least-educated workers; and, whenever possible,
- help less-educated immigrants who stay in the country gain opportunities for effective integration and upward mobility without hurting US-born Americans.

Of course, there may well be conflicts and tradeoffs involved in the pursuit of such goals. For instance, US consumers might well benefit from immigration policies that allow nearly unlimited inflows of less-educated immigrants (legally or illegally), while less-educated US-born workers might well be hurt by such policies. And allowing for policies that enhance upward mobility prospects for immigrants might impose costs on some Americans and drain public resources that might otherwise be available to them. At least theoretically, we might therefore seek to identify some optimal levels of less-skilled immigration in light of these tradeoffs.

Furthermore, important distributional concerns must be taken into account: for example, a heavy influx of less-skilled immigrants might enhance the net real earnings (due to higher earnings and lower consumer prices) of higher-income native-born consumers while reducing them for lower-income US workers. It is impossible to identify an optimal level of immigration in the presence of these distributional factors without having some sense of what weights to put on the well-being of groups of Americans who are differently affected by immigration. My own preference is to put relatively more weight on the well-being of those who are now relatively more disadvantaged, among both consumers and workers, at least among the native born.

Furthermore, the well-being of legal immigrants who have become naturalized citizens should arguably receive at least some consideration here, and perhaps just as much as that of the US-born. But doing so creates some conceptual difficulties; for instance, it generates inconsistencies over time in how we view immigrants from the same source countries who arrive only a few years apart, since the newer arrivals likely compete heavily with and therefore impose costs on their own fellow nationals who came earlier but are now naturalized. Thinking of unskilled legal immigrants as a group that will ultimately settle in the country permanently might also change how we view the costs and benefits associated with them before their arrival, as noted below.

Of course, immigration policy always will (and should), to some extent, reflect political, social, and humanitarian concerns as well as national economic interests. But the focus of this analysis is on the economic aspect.

Subject to these caveats, national immigration policy should be designed to serve broad economic goals. But, in attempting to do so, a number of empirical questions arise which have been partially although not completely addressed in the research literature. Among these questions:

- What are the costs and benefits to native-born Americans associated with the immigration of unskilled workers, and to whom do they accrue? Can it be argued that the country presently has too many such immigrants, too few, or an optimal rate of inflow?
- To what extent do these benefits and costs change with the legal versus illegal status of unskilled immigrants? Among those here legally, does it matter whether they are temporary or permanent, and whether their status is based on employment, family reunification, or humanitarian status?





- To what extent does the United States overall — and not just the immigrants themselves — benefit from upgrading the skills of less-educated immigrants who are permanent residents?

The next section considers the extent to which we can answer these questions, based on the extant empirical research literature by economists and other social scientists. The section that follows will take up questions on the cost-effectiveness of specific policies to address these issues.

### III. Empirical Research on Unskilled Immigrants: A Few Answers, Lots of Questions

When less-educated immigrants — i.e., those with high school diplomas or less — come to the United States, what costs and benefits do they generate for native-born Americans at different income or skill levels?

#### A. Costs: Lower Earnings among Native-Born Workers

There is no question that immigrants have greatly expanded the number of high school dropouts in the US labor market — perhaps by a third or more since 1980.<sup>3</sup> But it is less clear what their impacts have been on native-born dropouts and other less-educated groups, including African-Americans.

The extent to which immigrant workers compete in the labor market with native-born Americans has been the subject of extensive research and debate among labor economists. Most immigration analysts are familiar with the differing findings of David Card of the University of California at Berkeley and George Borjas of Harvard, in which the former finds very little impact of less-educated immigrants on less-educated US-born workers while the latter finds a more substantial negative impact. What is perhaps less well understood is why their results differ, what problems are associated with each researcher's methods, and whether any consensus might emerge from these findings.

Card's work<sup>4</sup> focuses primarily on differences between US metropolitan statistical areas (MSAs), some of which have had much higher immigration levels than others. Borjas and others have argued that these "cross-sectional" estimates understate the likely negative impact of migration for two reasons: 1) immigrants are attracted to strong labor markets, especially those where they might be more easily absorbed; and 2) native-born workers emigrate out of these labor markets in response to immigration, and thus any negative impacts on wages are not observed where the immigrants actually reside.<sup>5</sup> While Card claims to address these issues through a variety of statistical techniques, questions persist about the ability of these methods to resolve the statistical biases in the cross-MSA work. Card also disputes the notion of substantial native outmigration in response to immigrant entry into MSAs, though the issue is not yet resolved empirically.<sup>6</sup>

3 George Borjas, "Immigration Policy and Human Capital" in *Reshaping the American Workforce in a Changing Economy*, eds. Harry J. Holzer and Demetra Nightingale (Washington, DC: Urban Institute Press, 2007).

4 David Card, "Is the New Immigration Really So Bad?" *Economic Journal* 115 no. 506 (2005): 300-323; David Card, "Immigration and Inequality," *American Economic Review* 99 no. 2 (2009): 1-21.

5 George Borjas, Richard Freeman, and Lawrence Katz, "Searching for the Effect of Immigration in the Labor Market." *American Economic Review* 86 No. 2 (1996): 246-51.

6 For different views on how to interpret the data on cross-MSA migration of natives in response to immigration, see George Borjas, "Native Internal Migration and the Labor Market Impact of Immigration," *Journal of Human Resources* 41 no. 2 (2006): 221-258; and David Card, "Immigration Inflows, Native Outflows, and the Local Labor Market Impacts of Higher Immigration," *Journal of Labor Economics* 19 no. 1 (2001): 22-64.



In contrast, Borjas studies differences in immigrant penetration and native labor market outcomes across nationwide groupings of workers according to their educational attainment and work experience, for the five decennial years over the period 1960-2000. With four education and eight experience groupings in each year, he generates 160 national groups (each with the same level of education and experience) from which to compare immigrant presence and employment outcomes.<sup>7</sup> But questions remain over the extent to which these findings are robust to other controls, and to whether he is really capturing the effects of a greater supply of less-skilled labor (induced by immigration) as opposed to reductions in the demand for such labor (because of technological change, rising international trade, or other forces).<sup>8</sup> Borjas also acknowledges that the long-run impacts of immigration are likely to be smaller than the short-run impacts, given that inflows of capital in the long run might partially or fully offset those impacts.<sup>9</sup>

In my view, Card's estimates are likely lower bounds to the true, negative impacts of immigration on less-educated natives while Borjas' estimates are likely upper bounds. Some other authors<sup>10</sup> using Card's methods have recently generated modest negative effects of unskilled immigration on native employment outcomes among less-educated Americans, while others find much more modest negative effects using a national-level analysis similar to that of Borjas.<sup>11</sup> Also, since Borjas' own long-run estimates do not differ too greatly from some of these other cross-sectional estimates, it seems likely that immigration to the United States has generated quite modest negative impacts on the employment and earnings of native-born high school dropouts, and perhaps the most disadvantaged and least skilled of high school graduates. In this view, immigration would only account for a small percentage of the decline in relative wages experienced by the least educated workers.

But, if true, another question emerges: why are the impacts of so large an influx of less-educated workers so small on the labor market outcomes of native-born workers? Both theory and evidence suggest three possible answers. First, immigrants generate additional product demand and therefore labor demand as well as supply, since they are consumers in the United States as well as producers. While it is unlikely that they consume enough to fully offset their impacts on low-skill labor markets, a partial offset is likely.<sup>12</sup>

7 George Borjas, "The Labor Demand Curve IS Downward Sloping: Reexamining the Impacts of Immigration on the Labor Market," *Quarterly Journal of Economics* 118 no. 4 (2003): 1335-1374.

8 By estimating negative effects of immigration on wages over a 40-year period, but with the largest amounts of immigration occurring in the last 20 years, it is possible that the observed negative effects of immigration supply might really be capturing the decline in the relative demand for less-educated labor that occurred during this same period due to technological change and other global forces, as noted by Claudia Goldin and Lawrence Katz and many others; Claudia Goldin and Lawrence Katz, *The Race Between Education and Technology* (Cambridge, MA: Harvard University Press, 2008). Borjas' attempts to control for these other demand shifts through the inclusion of year-by-education dummy variables in his estimated equations may or may not be sufficient to fully capture these effects.

9 Borjas notes that if capital is fully mobile, then the long-run effects of immigration on US labor markets in the aggregate must be zero, since capital inflows will fully offset labor inflows. But he still believes that immigration will negatively affect less-educated workers and positively affect more-educated labor over longer periods of time, though much more modestly than in the short run; he estimates that immigration between 1980 and 2000 decreased the earnings of less-educated native-born workers by 4 percent in the long run rather than 9 percent in the short run. Stephen Raphael notes that when black male incarceration rates are added to Borjas' empirical specification, his effects largely disappear; Stephen Raphael and Lucas Ronconi, "The Effects of Labor Market Competition with Immigrants on the Wages and Employment of Natives: What Does Existing Research Tell Us?" *DuBois Review: Social Science Research on Race* 4 no. 2 (2007): 413-432. Since these incarceration rates likely proxy for a wide range of demand-side (and perhaps supply-side) factors affecting employment outcomes of young black men, it is likely that Borjas' estimates are capturing at least some of these demand shifts over time and across groups. Ibid. George Borjas, "Wage Trends among Disadvantaged Minorities," in *Working and Poor: How Economic and Policy Changes are Affecting Low-Wage Workers*, eds. Rebecca M. Blank, Sheldon H. Danziger, and Robert F. Schoeni (New York: Russell Sage Foundation, 2006b).

10 Deborah Reed and Sheldon H. Danziger, "The Effects of Recent Immigration on Racial/Ethnic Labor Market Differentials," *American Economic Review* 97 no. 2 (2007): 373-377; Christopher Smith, "Essays on the Youth and Entry Level Labor Markets" (Ph.D. dissertation, MIT, 2008); Patricia Cortes, "The Effect of Low-Skilled Immigration on US Prices: Evidence from CPI Data," *Journal of Political Economy* 116 no. 3 (2008): 381-422.

11 See Gianmarco Ottaviano and Giovanni Peri, "Rethinking the Effects of Immigration on Wages" (NBER Working Paper 12497, 2006).

12 Since immigrants have lower average incomes than the US born, they presumably consume less per person. Since their labor



Second, immigrants are imperfect substitutes for native-born workers of the same educational level.<sup>13</sup> In fact, the least-educated immigrants concentrate in jobs that require virtually no verbal interaction with customers and no reading/writing work of any kind. Accordingly, they directly compete mostly with earlier cohorts of immigrants from the same countries in the same industries, while natives move to other jobs in those industries. Indeed, estimates of negative impacts of immigrants are always much larger on other immigrants than on native-born workers in the same educational categories.<sup>14</sup> Immigrants might then complement these other native-born workers instead of substituting for them, even if the latter have educational levels that are similar.

Third, production techniques shift in response to less-educated immigrant labor, with employers less likely to substitute capital and/or technology for less-educated labor when more immigrants are available. While this might reduce productivity growth within industries, it also means that many low-skilled jobs that are now available to immigrants would likely not exist in their absence, as they would be replaced by capital and technology.<sup>15</sup>

It is noteworthy that the limited negative impact of unskilled immigrants on the labor market prospects of the native born might be a relatively unique American phenomenon, reflecting the flexibility of US labor markets in adjusting to external supply shocks. Indeed, recent evidence by economists Joshua Angrist and Adriana Kugler suggests more negative effects of immigration on the employment of native-born European workers, because employment regulations in Europe raise the costs and limit the extent of the new job creation that is needed to absorb the flows of new immigrant workers.<sup>16</sup>

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Of course, other questions remain. Would native-born workers even be interested in the kinds of jobs that immigrants often fill? What wages would be high enough to draw US-born workers into these jobs, and could these jobs still exist at such wages? Perhaps the wages that would be needed to attract US-born workers vary by industrial sector, depending on work conditions and the social status of jobs across sectors. It seems unlikely that many native-born workers would find low-wage, low-status work in agriculture, restaurants, or landscaping very appealing, absent large wage increases which themselves might cause many of the jobs to disappear.<sup>17</sup>

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force impact is much more concentrated on the bottom end of the labor market, their modest consumption is unlikely to fully offset their negative impacts on wages for less-skilled groups, while their consumption likely contributes to positive impacts on more-educated groups. Immigrants' consumption is also reduced when they send remittances home.

13 Ottaviano and Peri, "Rethinking the Effects of Immigration on Wages."

14 Cortes, "The Effect of Low-Skilled Immigration on US Prices: Evidence from CPI Data."

15 Ethan Lewis finds that such effects are largely *within-industry* — meaning that it is not the proliferation of industries that use low-wage immigrants when they enter an area, but rather a shift from capital to labor inputs within existing industries. If true, then production is more capital-intensive in the absence of these immigrants, and at least some of the jobs they hold would no longer be available to natives at higher wages. Ethan Lewis, "Immigration, Skill Mix and the Choice of Technique" (Working Paper, Federal Reserve Bank of Philadelphia, 2005).

16 Joshua Angrist and Adriana Kugler, "Protective or Counter-Productive? Labour Market Institutions and the Effect of Immigration on EU Natives," *The Economic Journal* 113 no. 2 (2003): 302-331.

17 The extent to which these jobs would be available to native-born workers in the absence of immigrants, and at wages that would be sufficiently high to appeal to them, rests on the relative magnitudes of "elasticities" of labor demand among employers in the relevant sectors and labor supply among the workers to those sectors. (Elasticities are measures of employers' or workers' sensitivity to prices). High wages are more likely to reduce employers' hiring in the long run than the short run, as capital and technology that might substitute for low-skilled workers are more variable over longer periods of time.



The answers might also vary across US-born groups. In particular, the stunning declines in recent decades in employment among less-educated young black men immediately raise questions about whether African Americans have been hurt more by less-skilled immigrants than other groups of less-educated US-born workers, as Borjas and his colleagues contend.<sup>18</sup> Indeed, there is some evidence that, where both groups are available for low-wage and low-skill work, employers actually prefer the immigrants, and believe that they have a stronger work ethic and lower rates of turnover out of low-wage jobs.<sup>19</sup> So perhaps native-born African Americans have borne a disproportionately large share of the burden associated with unskilled immigration.

Of course, young black men tend to “disconnect” from school and the workforce at early ages, often in response to a perceived lack of better-paying jobs.<sup>20</sup> Absent immigrants, would some employers raise wages enough to encourage some of these young men to remain attached to the labor force? In some sectors — notably construction and manufacturing — wages might be high enough even today to entice young black men into the markets, even in the presence of immigrants, if they could be hired; but whether employers would hire young black men into these jobs if immigrants were not available remains questionable because of other factors such as discrimination and weak informal job networks among young blacks.<sup>21</sup>

No doubt, many local labor markets that now rely heavily on low-wage immigrants would adjust to a new “equilibrium” in their absence with modestly higher wages for native-born unskilled workers in certain industries. But part of the adjustment process would also likely involve short-term disruptions, with some employers leaving their current industries altogether in response to rising labor costs. While we should perhaps not worry too much about the costs of short-run disruptions and the reallocation of employers and their capital across industries and local markets, this additional dimension of costs to lower immigration should at least be noted. And it is likely that some capital might be moved to offshore rather than domestic uses, thus generating long-term reductions in US output and employment rather than just short-term reallocations.

Finally, the fiscal impacts of less-educated immigrants should be noted. On net, these immigrants often draw on local public services, especially emergency rooms and public schools. Many noncitizens are ineligible for public benefits.<sup>22</sup> Less-skilled immigrants typically pay taxes, including for Social Security, even when they are unauthorized. Most analysts suggest that the fiscal impacts of unskilled immigrants are mixed, perhaps generating a net drain on local public resources (at least in the short run) and somewhat less negative (or even positive) impacts at the federal level. The fiscal impacts also improve across generations as the incomes of immigrant children and grandchildren grow in absolute and relative terms.

Thus, a variety of costs to US-born workers as a result of less-educated immigration are uncertain in magnitude. The likely extent and speed of the US labor market’s adjustment to any curtailing of less-skilled immigration is also unclear, especially when considering the great deal of uncertainty that surrounds future labor market trends and outcomes. If, for instance, baby boomer retirements in the

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Meanwhile, supply elasticities by workers to sectors that are seen as having very low status or unappealing working conditions are likely quite low, implying that very substantial wage increases would be necessary for the workers to take such jobs — often likely higher than employers would pay over the longer term.

18 Borjas, “Wage Trends among Disadvantaged Minorities.”

19 Joleen Kirschenman and Kathryn Neckerman, “We’d Love to Hire Them But...” in *The Urban Underclass*, eds. Christopher Jencks and Paul E. Peterson (Washington, DC: Brookings Institution, 1991).

20 See Peter Edelman, Harry J. Holzer, and Paul Offner, *Reconnecting Disadvantaged Young Men* (Washington, DC: Urban Institute Press, 2006) for more recent evidence on the growing extent over time to which young black men disconnect from both school and the labor market and for policy recommendations to deal with this phenomenon.

21 For a discussion of relative “reservation” (or lowest acceptable) wages among black and white youth, see Harry J. Holzer, “Black Youth Nonemployment: Duration and Job Search,” in *The Black Youth Employment Crisis*, Richard B. Freeman and Harry J. Holzer, eds. (Chicago: University of Chicago Press, 1986).

22 Michael Fix, “Comment on ‘Welfare Reform and Immigration’” in *The New World of Welfare*, eds. Rebecca M. Blank and Ron Haskins (Washington, DC: Brookings Institution, 2001).



next decade or two dramatically reduce the supply of less- as well as more-educated US-born labor, then immigrant competition to less-educated US-born workers who remain in the labor force will generate less severe costs and greater relative benefits to the US economy.<sup>23</sup> If, on the other hand, baby boomer retirements are more modest than expected, given the inadequacy of their savings and recent declines in the values of their assets; if the United States experiences a period of persistent low growth; or if, as Richard Freeman argues,<sup>24</sup> globalization and offshoring imply much greater effective supplies of less-educated labor to US employers, then the costs of low-skilled immigration to US-born workers will be more substantial. Exactly which scenario is more accurate is hard to ascertain at present, but will have important consequences for the ratio of costs and benefits to the US economy generated by low-skilled immigrants.

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## **B. Benefits: For Employers, Consumers, and the Economy**

If low-skilled immigration imposes modest costs on native-born less-educated workers, what benefits does it generate for native-born Americans, and who exactly enjoys these benefits?

Clearly, the current employers of these immigrants are the most direct beneficiaries of the lower wages that they are paid. George Borjas, Gordon Hanson, and others have calculated the value of the “surplus” (or profit) accruing to employers, at least in the short term, because of lower-wage immigrant labor, net of the costs borne by workers.<sup>25</sup> These aggregate surplus estimates are invariably small, when computed as percentages of Gross Domestic Product (GDP), because immigrants remain fairly small parts of the workforce and their impacts on wages are small as well.<sup>26</sup> However, for particular economic sectors and local areas, these contributions might be more important; and in the long run, if the higher profits attract more capital to industries or areas that rely on low-skilled immigrants or to the economy as a whole, these patterns will likely raise the economic benefit of immigration and allow it to be spread to others, such as newly hired US workers in these sectors and locations.

Another kind of benefit to the economy flows to consumers and derives from the lower prices of goods and services produced as a result of lower wages. The best-known calculation of these benefits to date is by Patricia Cortes, who estimated the benefits to consumers of immigrant contributions to the production of “nontraded” goods, since the prices of “traded” goods<sup>27</sup> are set in broader markets.<sup>28</sup> To do so, she estimated price differences across metropolitan areas with different levels of immigrant intensity in the production in each.

23 See Carol D’Amico and Richard Judy, *Workforce 2020* (New York, NY: Hudson Institute, 1997).

24 Richard B. Freeman, “Is a Great Labor Shortage Coming? Replacement Demand in the Age of Globalization” in *Reshaping the American Workforce in a Changing Economy*, Harry J. Holzer and Demetra Nightingale, eds., (Washington DC: Urban Institute Press, 2007).

25 George Borjas, “The Economic Benefits from Immigration,” *Journal of Economic Perspectives* 9 no. 2 (1995): 3-22; Gordon Hanson, *The Economics and Policy of Illegal Immigration in the United States* (Washington, DC: Migration Policy Institute, 2009), [www.migrationpolicy.org/pubs/Hanson-Dec09.pdf](http://www.migrationpolicy.org/pubs/Hanson-Dec09.pdf).

26 For instance, Hanson, *The Economics and Policy of Illegal Immigration in the United States*, estimates that unauthorized immigrants add just 0.03 percent to the nation’s GDP in the aggregate, though their impact on specific regions and industries could be much larger than that.

27 Nontraded goods must be produced and consumed in the same location; they include personally delivered services such as health care or gardening or freshly prepared food that cannot be shipped. Traded goods can be produced in one location and sold in another; they include many manufactured goods, but also some services such as IT.

28 Cortes, “The Effect of Low-Skilled Immigration on US Prices: Evidence from CPI Data,” 381-422.



Cortes estimates that immigrants lower the prices of products consumed by highly educated consumers by 0.4 percent of GDP and for less-educated consumers by 0.3 percent.<sup>29</sup> She argues that highly educated or high-income consumers benefit more because they use more “immigrant-intensive” products (like child care, restaurant food, landscaping, and the like) than do lower-income consumers. Furthermore, Cortes calculates that since immigrants also lower the wages of less-educated US workers (with much bigger negative effects on earlier immigrants than on the native-born), the net effects of immigration overall are positive for the highly educated and negative for the less-educated, though both magnitudes are modest.<sup>30</sup>

While compelling, it seems likely that Cortes’ methods result in some underestimation of the magnitudes of consumer benefits, particularly for less-educated Americans. For one thing, her list of industries is limited by the availability of local consumer price data by industry and it omits some key immigrant-intensive industries like construction and housing, which are particularly important to lower-income consumers. More importantly, what is “traded” at the metropolitan level (because it is produced<sup>31</sup> in other locations in the United States) is often “nontraded” at the national level, and these impacts are left out of her calculations. Local food and clothing costs from domestic agriculture and garment production might well be included in this category.

In critical industries such as health and elder care, the contribution of immigrant labor may be underestimated even more. As Americans age and live longer and the strong demand for these services continues to grow, these labor markets might fail to “equilibrate” — wages and prices may not be able to rise sufficiently if they are limited by the reimbursement policies of third-party insurers.<sup>32</sup> The results would be persistent shortages of workers, even in low-wage and low-skill positions such as nurses’ aides. In such situations, immigration’s contribution might be to allow a greater *quantity* of these services to be provided, rather than to reduce consumer prices.

Finally, since food, clothing, housing, and medical care account for much of the consumer budgets of the low-income relative to higher-income Americans, the immigrant contributions to the former group are likely understated in Cortes’ calculations.

Of course, the estimates of immigration surpluses for employers and consumers are static in nature, and do not include the possible contributions of less-educated immigrants to the efficiency or growth of the US economy over time. Will Somerville and Madeleine Sumption argue that immigrants likely contribute to both, at least partly because they relocate more quickly than native-born workers in response to product or labor demand shifts.<sup>33</sup> It is, of course, hard to directly test these hypotheses and to estimate the magnitudes of their effects.

Somerville and Sumption also argue that immigrant concentrations in lower-wage industries might induce native-born workers to relocate to higher-paying jobs that use language and computational skills more intensively, since natives have greater communication skills compared to immigrants with the same education level.<sup>34</sup> In a recent paper, Patricia Cortes and Jose Tessada argue that low-skilled

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29 Ibid.

30 Cortes estimates that the flow of low-skilled immigrants into the United States in the period 1980-2000 increased the purchasing power of highly educated native-born workers by 0.32 percent and decreased that of dropouts overall by 1 percent or less, and of Hispanic high school dropouts by up to 4 percent. Native-born high school graduates, on net, benefit from immigration in her estimates.

31 Cortes does estimate impacts of immigration on prices of “traded” products from relatively immigrant-intensive industries that include garments and some food sectors that she can identify, and she finds no significant effects. Whether this would be true for all such sectors that heavily use immigrants in domestic production is unclear.

32 Robin Stone and Joshua Wiener, *Who Will Care for Us? Addressing the Long-Term Care Workforce Crisis* (Washington, DC: Institute for the Future of Aging Services, 2001).

33 Will Somerville and Madeleine Sumption, *Immigration and the Labor Market: Theory, Evidence, and Policy* (Washington, DC: Migration Policy Institute, 2009), [www.migrationpolicy.org/pubs/Immigration-and-the-Labour-Market.pdf](http://www.migrationpolicy.org/pubs/Immigration-and-the-Labour-Market.pdf).

34 Giovanni Peri and Chad Sparber, “Task Specialization, Comparative Advantages, and the Effects of Immigration on Wages” (NBER Working Paper 13389, 2007).



immigrants complement and thereby augment the labor supply of highly educated native-born women with children by providing cheaper household services.<sup>35</sup> In both cases, less-educated immigrants raise the earnings and labor supply of American workers at different levels, which no doubt benefits those groups directly and the US economy more broadly.

In sum, the estimates to date of the economic benefits of unskilled immigrant labor appear quite modest in the aggregate. But these estimates likely understate the true magnitudes of these benefits, and especially those that accrue to specific local areas and economic sectors as well as particular demographic groups. The notion that these benefits accrue much more to higher-income than lower-income Americans also seems overstated.

Accordingly, given the mix of benefits and costs associated with less-skilled immigration, and uncertainties over their relative magnitudes both today and in the future, we cannot really argue that we will have too many or too few low-skilled immigrants over the next few decades. Of course, we would generally prefer that less-educated US-born Americans obtain higher rates of educational achievement and attainment, which would improve their own labor market outcomes and reduce overall inequality.<sup>36</sup> Large flows of low-skilled immigrants who remain in the country for many years also raise integration issues in the long term, making the case for continuing unskilled flows more tenuous. Still, with the mix of benefits and costs associated with such immigration noted above, it is difficult to make a strong case for many fewer such immigrants in the near future, or for many more.

### C. Do the Costs and Benefits Vary by Immigrant Category?

The above discussion highlights the fact that the impacts of less-skilled immigrants on the native born will vary, according to the skills, sectors employed, and demographics of the latter. But they might also vary according to certain categories of immigrants themselves.

For instance, we know very little about the extent to which legal and unauthorized immigrants have different impacts on the labor market outcomes of the native born, since most of the data used to study labor market impacts cannot distinguish between them. Of course, the characteristics of the two groups of immigrants likely differ, with unauthorized immigrants having lower levels of cognitive or verbal skills and less formal education.<sup>37</sup> The local areas and sectors in which the two groups are hired also differ. Unauthorized immigrants are heavily Mexican in origin and are most likely hired in small establishments with very informal human resource policies that operate under the radar of law enforcement authorities.

Because unauthorized immigrants have fewer options in the formal labor market, it appears that many have lower pay and benefits than similar legal immigrants.<sup>38</sup> All else being equal, this implies that they pose a greater competitive threat than legal immigrant workers to the jobs of the native born who might otherwise work in these sectors. Of course, their lower wages might also imply greater benefits from

35 Patricia Cortes and Jose Tessada, "How Low-Skilled Immigration Is Changing the Labor Supply of Highly Educated American Women" (Working paper, 2009), [www.inesad.edu.bo/bcde2009/A2%20Cortes%20Tessada.pdf](http://www.inesad.edu.bo/bcde2009/A2%20Cortes%20Tessada.pdf).

36 See Claudia Goldin and Lawrence Katz, *The Race Between Education and Technology* (Cambridge, MA: Harvard University Press, 2008) for a historical review of how rising levels of education in the United States have helped to alleviate rising inequality associated with technological change and rising demand for skills, and how these increases in the past three decades have failed to keep pace with technological change.

37 Gordon Hanson, "Illegal Migration from Mexico to the United States," *Journal of Economic Literature* 44 no. 4 (2007): 869-924.

38 Sherrie Kossoudji and Deborah Cobb-Clark estimate wage penalties of 14 to 24 percent for those here illegally, while Francisco Rivera-Batiz and others find even larger effects. Sherrie Kossoudji and Deborah Cobb-Clark, "Coming Out of the Shadows: Learning About Legal Status and Wages from the Legalized Population," *Journal of Labor Economics* 20 no. 3 (2002): 598-628; Francisco Rivera-Batiz, "Undocumented Workers in the Labor Market: An Analysis of Earnings of Legal and Illegal Mexican Immigrants in the United States," *Journal of Population Economics* 12 no. 1 (1999): 91-116. See Gordon Hanson, "Illegal Migration from Mexico to the United States," *Journal of Economic Literature* 44 no. 4 (2007): 869-924 for a discussion of these estimates.



these immigrants in terms of employer surplus or consumer prices, though Gordon Hanson argues that these benefits remain quite modest.<sup>39</sup>

Some evidence also suggests that unauthorized immigrants' employment in the United States is more responsive to the business cycle, and that they are the first ones let go during a serious downturn such as the present one. At the same time, their illegal status might well impede their ability to find employment in other sectors, thus limiting their adaptability to changes in the economic environment. The fact that the influx of unauthorized immigrants has clearly declined in response to the Great Recession, more than the flow of legal immigrants, reflects their greater inability to find employment or public benefits during this downturn. Thus, while their responsiveness to employment fluctuations might be a buffer for native-born workers, it exacts a very high human cost on the unauthorized immigrants themselves.

What about the relative impacts of various other categories of immigrants — such as those who are here on temporary visas rather than permanent ones, or those whose legal entry is employment-based rather than driven by family unification? In reality, very few unskilled immigrants enter the United States through temporary and/or employment-based visas: the H-2A program for seasonal agricultural workers and the H-2B program for nonagricultural workers account for very small percentages of the total.<sup>40</sup> Family reunification accounts for the vast majority of low-skilled immigrants admitted legally.<sup>41</sup>

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*Some evidence also suggests that unauthorized immigrants' employment in the United States is more responsive to the business cycle . . .*

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The evidence to date suggests that temporary workers are among the lowest paid of all unskilled immigrants, and only partly because they are now so heavily concentrated in agriculture.<sup>42</sup> The upward mobility of these immigrants is impeded by the fact that they cannot usually stay legally for more than one year at a time, and that their visa and therefore their legal employment is heavily tied to their current employers; thus the market external to their current jobs offer little in the way of alternative opportunities to those experiencing unusually low wages and poor working conditions.

Because employment-based immigration is more responsive than other forms of legal immigration to cyclical or sectoral employment conditions, these immigrants provide potentially less competition to native-born workers in times of slack labor markets. On the other hand, those here on low-skilled H-2 visas might overstay and become unauthorized immigrants, who may ultimately be more competitive with less-educated US-born workers (although most overstayers, in fact, enter on tourist visas).

All of this perhaps suggests that employment-based immigration can mitigate some of the harmful competition to native-born unskilled workers, but only if the immigrants can be convinced to not ultimately become illegal and their employers are convinced not to hire them illegally as well. This, in turn, might imply the need for a path to permanent immigration status for those here on temporary employment-based visas, to provide an incentive for the workers to accept the legal path, as well as strong sanctions for both employers and workers who continue to engage in illegal employment.

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39 Hanson, *The Economics and Policy of Illegal Immigration in the United States*.

40 In recent years, 100,000 to 150,000 workers have been authorized to work in the United States on H-2A or H-2B visas in any given year. US Department of State, "Nonimmigrant Visa Statistics" (Washington DC: US Department of State), [http://travel.state.gov/visa/statistics/nivstats/nivstats\\_4582.html](http://travel.state.gov/visa/statistics/nivstats/nivstats_4582.html).

41 Ibid.

42 Madeleine Sumption, *Low-Skilled Immigration to the United States* (Washington, DC: Migration Policy Institute, 2010 unpublished).





#### D. *Immigrant Integration: What Are the Stakes for Native-born Workers?*

There has been some dispute in recent years about whether recent cohorts of immigrants to the United States integrate and advance economically more slowly, both within and across generations, than previous cohorts did. In particular, Borjas has argued that the most recent waves of immigrants arrive further behind native-born Americans, in educational attainment and earnings, than did previous cohorts, and thus take longer to assimilate.<sup>43</sup> Borjas and Lawrence Katz note that this is particularly true of recent cohorts of Mexicans, who remain significantly behind their native-born counterparts even after two generations in the United States.<sup>44</sup>

On the other hand, Card questions whether this is true of immigrants overall. Much depends not only on labor market conditions when the immigrants arrive — in terms of earnings gaps between those with more or less education — but also the selection mechanisms that determine which immigrants come to the United States from which source countries, who remains in the United States, and who returns home.<sup>45</sup> All else being equal, the more egalitarian the labor market of the source country, the more likely that highly educated workers there will emigrate to the United States, where income inequality between more- and less-educated workers is relatively great and thus the highly skilled receive a high return on educational investments. Darren Lubotsky, in particular, argues that labor market conditions in Mexico, whose labor market is not considered egalitarian, generate unskilled immigration to the United States, though he also argues that the least successful immigrants in the United States are the ones most likely to return home.<sup>46</sup>

No doubt, immigrants who stay in the United States have a strong interest in economic advancement and integration. And, to the extent that many become citizens, perhaps we have some obligation to help them succeed, just as we would any other Americans. But do native-born Americans, and our economy more broadly, have much interest in the extent to which less-skilled immigrants progress while here? If not, how supportive should we be of their advancement? If so, what policies should we support to encourage immigrant integration? And does all of this change how we might view the costs and benefits of such immigration in the first place, implying perhaps an even greater preference for more skilled immigrants at the outset?

On the plus side, the evidence reviewed above suggests that more highly skilled immigrants contribute more to the American economy over time and compete less with the most disadvantaged workers. Thus, to the extent that skill levels can be raised for the least-educated immigrants who are here, we might reduce the competition they present to native-born workers with low levels of education. More educated immigrants might generate even better-educated offspring of immigrants in future generations, which would benefit the economy overall.

Furthermore, increasing immigrant economic success over time would bring fiscal benefits, as immigrants and their children draw fewer public benefits while generating more tax revenues on their higher incomes. To the extent that poverty in the United States among children generates long-term economic costs — by reducing productivity, raising crime rates, and weakening health — reducing poverty among immigrants and their children might well reduce these costs (though it is unclear whether immigrant poverty generates the same aggregate costs as it does among natives).<sup>47</sup> But

43 Borjas, “Assimilation, Changes in Cohort Quality, and the Earnings of Immigrants.”

44 George Borjas and Lawrence Katz, “Evolution of the Mexican-Born Workforce in the United States” (NBER Working Paper 11281, 2006).

45 Card, “Immigration Inflows, Native Outflows, and the Local Labor Market Impacts of Higher Immigration.”

46 Lubotsky uses the fact of selective return migration to Mexico to argue that those immigrants have been somewhat less successful over time in integrating into the United States than had previously been thought. Darren Lubotsky, “Mexican Immigration and Self-Selection: New Evidence from the 2000 Mexican Census” (NBER Working Paper 11456, 2005); Darren Lubotsky, “Chutes or Ladders? A Longitudinal Analysis of Immigrant Earnings,” *Journal of Political Economy* 115 no. 5 (2007): 820-867.

47 For instance, immigrant poverty is likely less associated with crime and incarceration or very low labor force



improved integration could also have some costs, in the form of workforce development programs. Immigrants are currently underrepresented in workforce training programs, especially if they lack English language skills.<sup>48</sup> However, the public resources available for employment and training services for both immigrants and the US-born are extremely limited at the federal level, and there is little sign that greater resources will be made substantially more available anytime soon, particularly in an era of fiscal belt-tightening. The low attention and resources that workforce training programs have historically received suggests that policymakers may be reluctant to increase spending sufficiently to increase participation among both native-born workers and less-skilled immigrants, creating at least some possibility of competition for available resources between them.

In the labor market, questions also arise about the benefits and costs of greater immigrant integration to the native born. If less-educated immigrants' limited English literacy and communication skills reduce the extent to which employers can substitute them for most native-born workers in many low-skilled jobs, as argued above, then just modestly improving those skills might raise their substitutability and thus the degree of competition they provide to somewhat more-educated native-born workers. Immigrants might then be able more effectively to compete for a wider range of jobs now held more by native-born workers and less by other immigrants like themselves. Of course, doing so would also lessen the competition that they provide to less-educated native-born workers as well as immigrants who have arrived earlier. In other words, immigrant integration would likely increase competition with some groups of US-born workers while reducing it for others, leading to a "dilution" of competition across a broader section of the workforce.

In the end, the net impacts of such educational upgrading among immigrants would depend heavily on the particular occupational and industrial patterns of immigrant versus native penetration, which themselves might vary across local labor markets. In some industries, like construction, where immigrants already compete very effectively with the native born for low-skilled jobs but less so in the higher-skilled crafts (e.g., plumbing, electrical work, and advanced carpentry), immigrant upgrading might reduce already scarce opportunities for good jobs for the less-educated native born, at least in the short term. In others, such as health care, where worker shortages in positions requiring some certification are a persistent problem, the greater availability of moderately skilled immigrant labor should not hurt native-born employment prospects.

This discussion raises a number of issues. For one thing, how strong is the labor market for "middle-skilled" jobs in the United States — i.e., those that require some certification beyond high school but less than a bachelor's degree? If the supply of workers with such credentials were to substantially increase, would demand be sufficient in the longer run to absorb them without wage losses for those in those jobs right now? Are there some industries where a limited number of "good jobs" offering potential advancement for less-educated workers are rationed, at least in the short term? Certainly such rationing occurs during a recession as severe as the recent one — but will this last for many years to come?

Some research suggests that the market for middle-skilled jobs remains fairly robust in the longer run, though there is some variation across specific sectors.<sup>49</sup> Construction will likely remain depressed for

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participation than poverty among natives (and especially African Americans), and these outcomes are large parts of what drive the aggregate cost of child poverty in the United States. Harry J. Holzer, Diane Schanzenbach, Greg Duncan, and Jens Ludwig, *The Economic Costs of Poverty: Subsequent Effects of Children Growing Up Poor* (Washington, DC: Center for American Progress, 2007).

48 In addition, immigrants experience high rates of noncompletion in training programs, and only one-third of students with English as a second language progressed more than one level in a six-level system, according to a 2006 evaluation. US Department of Education, Office of Vocational and Adult Education, "Adult Education and Family Literacy Act Program Year 2003-2004. Report to Congress" (US Department of Education: 2006), <http://www2.ed.gov/about/reports/annual/ovae/2004aeffa.pdf>.

49 Harry J. Holzer and Robert Lerman, *America's Forgotten Middle-Skill Jobs: Education and Training Requirements in the Next Decade and Beyond* (Washington, DC: The Workforce Alliance, 2007); Anthony Carnevale, Nicole Smith, and Jeff Strohl, *Help Wanted: Projections of Jobs and Education Requirements Through 2018* (Center on Education and the Workforce, Georgetown University, 2010).



some time, given the recession and the bursting of the housing bubble. In other industries, where higher earnings accrue more to those with externally obtained credentials rather than just on-the-job experience, competition for job slots and key on-the-job training should matter somewhat less, and especially over time. And Randy Capps et al. have recently shown that immigrant penetration into the middle-skilled market has been somewhat greater than was previously realized, though the on-the-job skills obtained by many less-educated immigrants in construction contribute quite heavily to this finding.<sup>50</sup>

Overall, US labor markets will almost certainly be able to absorb more middle-skilled workers over time. It appears to be in the national interest to generate more such workers out of the current pool of the unskilled, and to reduce their poverty rates and raise their average incomes over time, even if the exact pattern of immigrant-native competition in the short- and medium-terms that would be generated under these circumstances remains a bit more uncertain at present.

On the other hand, does this imply that we should simply limit unskilled immigration at the outset in favor of the more-skilled? Not necessarily. While this study has acknowledged the benefits of skilled immigration and the need to encourage more of it, unskilled immigration also appears to have some net benefits. Perhaps the most sensible and justifiable strategy is to continue allowing an amount of unskilled immigration that generates such benefits, while ultimately helping only those who stay legally and eventually become citizens here (as well as their offspring) to integrate and advance economically. If and when they do so, they would then be replaced by other cohorts of the unskilled, some of whom would ultimately stay and advance as well.

## IV. Immigration Policy

What do the analyses above imply for immigration reform policy? What legislative proposals have been forwarded in recent years, and which seem most likely to further the goals set out above for immigration policy? Where does considerable uncertainty about the likely effects of immigration reform remain, and how should we proceed, in light of such uncertainty?

Between 2005 and 2007, several pieces of immigration reform legislation were proposed in both the US House of Representatives and the Senate, with each chamber passing one of two very different bills.<sup>51</sup> The Senate-passed bill, the Comprehensive Immigration Reform Act of 2006 (S.2611), was sponsored by Senator Arlen Specter (R-PA) and cosponsored by a bipartisan group of senators, with support from the Bush White House.<sup>52</sup> It included a number of provisions that had also been included in various forms in previous Senate bills, including:

- tougher border enforcement at the US-Mexico border along with stricter sanctions against employers hiring unauthorized workers;
- a path to citizenship for most current unauthorized residents, after the payment of back taxes and fines and some delay; and,

50 In construction, jobs held by high school dropouts in the crafts where training is gained informally, in what the Bureau of Labor Statistics calls “moderate on-the-job training” or “long-term on-the-job training” can be considered “middle-skilled” jobs. Randy Capps, Michael Fix, and Serena Yi-Ying Lin, *Still An Hourglass? Immigrant Workers in Middle-Skilled Jobs* (Washington, DC: Migration Policy Institute, 2010). See also Holzer and Lerman, *America’s Forgotten Middle-Skill Jobs*, 2007 for more discussion.

51 For a comparison of the provisions in the comprehensive immigration reform proposals, see Migration Policy Institute (MPI), “Side-By-Side Comparison of 2006 and 2007 Senate Legislation and 2009 CIR ASAP Bill” (Washington, DC: MPI, 2009) [www.migrationpolicy.org/pubs/CIRASAPsidebyside.pdf](http://www.migrationpolicy.org/pubs/CIRASAPsidebyside.pdf).

52 The cosponsors included Republican Senators Sam Brownback (KS), Lindsay Graham (SC), Chuck Hagel (NE), Mel Martinez (FL), and John McCain (AZ), along with Democratic Senator Edward Kennedy (MA).



- a temporary “guest worker” program for unskilled immigrants.<sup>53</sup>

After this bill failed to be enacted (because of differences with the House), another somewhat similar Senate bill was proposed as the Comprehensive Immigration Reform Act of 2007 (S.1639); this bill was sponsored by Senator Harry Reid (D-NV) and strongly supported by a coalition of Democratic senators joined by some Republicans and with the strong support of the Bush White House. In addition to somewhat different versions of the three features above,<sup>54</sup> S. 1639 would have also reduced family reunification as the basis for admitting immigrants and replaced it with a “merit system” in which points would be allocated for a range of skills plus family connections. This bill (and an earlier version) also included provisions of the DREAM Act, which would tender eventual legal permanent residence and ultimately citizenship to many unauthorized immigrants brought to the country as minors, provided they meet higher educational or military service requirements.

In contrast, the House’s major actions on immigration focused entirely on border control and cracking down on illegal immigration, with passage of the Border Protection, Anti-Terrorism, and Illegal Immigration Control Act of 2005, or H.R. 4437.<sup>55</sup> The bill, which never became law, would have mandated the construction of up to 700 miles of fences along the Mexican border, required all employers to eventually use electronic verification of employees, stiffened fines for hiring illegal workers, and made it a felony for any US citizen to knowingly aid or assist unauthorized immigrants.

Which of the legislative proposals — House or Senate — would further the goals outlined earlier of maximizing net benefits to the US economy and to immigrants who are here while minimizing hardship for less-educated US-born Americans? And what additional changes might be considered to make the achievement of these goals more likely?

#### A. *The Senate Bill: Closer to the Mark*

Offering a personal assessment, I find the measures of H.R. 4437 not only harsh and punitive but also potentially economically costly. The bill would have required the expenditures of many additional billions of dollars annually on enforcement measures, above those that are already occurring, that may or may not be cost-effective ways of limiting immigration; and it would cause major disruptions and impose higher costs on many domestic industries and employers, at least in the short term, while raising prices for consumers. Any benefits to native-born workers or to fiscal balance at various levels of government would be likely to be modest.

On the other hand, at least some version of the three broad provisions contained in the various Senate bills make sense from a policy perspective to further the goals outlined above. Converting today’s unauthorized immigrants into legal ones would no doubt limit their ability to undercut the wages of native-born workers, as they would now earn market-level wages while also greatly improving their own chances for integration and upward mobility as well as those of their descendants. Providing for a temporary worker program, under the right conditions, would be another means of converting unauthorized to legal immigrants by channeling future flows of the former into the latter. This conversion could potentially be done by keeping the supply of unskilled immigrants at roughly current levels — thus preventing huge disruptions and costs that would be imposed on the relevant industries and their consumers from a

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53 *Comprehensive Immigration Reform Act of 2006*, S 2611, 109<sup>th</sup> Congress, 2<sup>nd</sup> Session (April 7, 2006).

54 For instance, S. 1639 would have allowed 200,000 guest workers (reduced from 400,000 by amendment) for up to two years, after which they would have been required to return home. The bill would have added 370 miles of fencing on the Mexican border, along with the hiring of 20,000 more border patrol agents and the mandatory use of an electronic verification system for hiring eligibility. Current unauthorized residents could apply for a green card after waiting eight years, and paying a \$2,000 fine on top of all back taxes. *A Bill to Provide For Comprehensive Immigration Reform And For Other Purposes*, S 1639, 110<sup>th</sup> Congress, 2007.

55 *The Border Protection, Anti-Terrorism, and Illegal Immigration Control Act of 2005*, H.R. 4437, 109<sup>th</sup> Congress, 1<sup>st</sup> Sess., (December 6, 2005).



sudden curtailment of these immigrants, while enhanced worksite and border enforcement would help prevent local areas (especially those on or near the Mexican border or in major urban centers) from being flooded with large increases in their numbers. The visa levels for temporary immigrants could also be based on economic necessity, thus generating a better fit with fluctuating US economic needs. Overall, the country would thus be able to maintain much of the net benefit currently associated with unskilled immigration while limiting some of its costs, both economic and human.

Still, there are a number of areas in which the Senate bills seen to date can be improved, as addressed below. I address each of these issues below.

## **B. Helpful Adjustments**

Some modifications to the provisions included in those bills would raise the net benefits they provide to both native-born Americans and immigrants themselves. Among them:

### **I. Guest Workers: Prospects for Better Jobs and Citizenship**

Guest worker provisions are quite sensible at one level, since they provide a potential legal avenue for those immigrants who would otherwise enter illegally in the future. Yet these provisions also have at least two major downsides. First, since guest worker provisions usually tie workers to the employers who sponsor them, the workers can be exploited and abused without having recourse to other jobs in the external labor market. Second, without any prospect of future permanent residence or citizenship, many legal guest workers would ultimately become unauthorized residents when their guest term expires — or they might simply opt to come illegally at the outset.

Both of these potential downsides to guest worker programs can be remedied rather easily. After some period of time — say six months to a year — guest workers should be entitled to switch jobs as they please, with all of the protections that other workers have when so doing. And they should have the option of obtaining permanent residence and ultimately citizenship after some period of time, as long as they comply with the terms of their visas. These protections and options would provide an incentive for temporary workers to choose the legal path over the illegal one and also improve their abilities to enjoy earnings growth and integration over time. As legal workers, enforcement of wage and hour regulations could be accomplished more directly.

Indeed, these visas might be considered explicitly “provisional” rather than “temporary,” which would clarify the ultimate option of permanent residence and citizenship for these workers.<sup>56</sup> Whether temporary visas should remain available to some if provisional visas go to others would remain an open question under these circumstances.<sup>57</sup>

### **2. Fees for Guest Workers (or Provisional Visa Holders)**

Given the strain that unskilled and especially illegal immigration can place on public finances at the local level at least in the short term and given that those workers generate important benefits to some Americans (especially employers) but some costs to others (native-born unskilled workers), it makes sense that employers should pay fees in order to generate revenue and to provide some potential compensation to those hurt by the arrival of these immigrants.<sup>58</sup> This notion, in addition to being fair,

56 Demetrios G. Papademetriou, Doris Meissner, Marc R. Rosenblum, and Madeleine Sumption, *Aligning Temporary Immigration Visas with US Labor Market Needs: The Case for a New System of Provisional Visas* (Washington, DC: MPI, 2009), [www.migrationpolicy.org/pubs/Provisional\\_visas.pdf](http://www.migrationpolicy.org/pubs/Provisional_visas.pdf).

57 For instance, it might make sense to allow temporary visas for certain categories of work, like seasonal agricultural work, without granting provisional visas to those workers.

58 See Hanson, *The Economics and Policy of Illegal Immigration*; and Richard B. Freeman and Harry J. Holzer, “Guest Worker Proposals Memorandum,” (Judiciary Committee, US Senate: Mimeo, 2006).



makes basic economic sense — in that those whose economic activities impose costs (or “negative externalities”) on others in society should have to pay for any damage they cause.<sup>59</sup>

Of course, care would be needed when setting the appropriate fee levels. Given that the goal is to provide an incentive for both workers and their employers to choose the legal rather than the illegal route, these fees must not be so steep as to dissuade them from doing so. Given the very low incomes and assets of recent Mexican and other immigrant workers, the payment should be directly levied on employers.<sup>60</sup>

### 3. Macroeconomic Adjustments to the Numbers Admitted

One related reform, already been touched upon in some measure in the earlier Senate bills, would be to adjust the flows of legal guest (or provisional) workers over time to match shifts in employer demand. These adjustments could occur within the industries and regions that tend to depend heavily today on unskilled immigrants, or in response to aggregate shifts in the labor market (such as the recent recession). This mechanism for recalibrating flows could recreate some of the economic responsiveness to conditions that exists today among unauthorized immigrants, while allowing more flexibility in terms of where these workers flow to meet the demand.

Of course, exactly how decisions about such adjustments should be made, and by whom, remain open questions. Arguments for a professional commission to make such recommendations, based on data analysis over the short and long runs, certainly have some merit.<sup>61</sup>

### 4. State-Level Variation and Research/Evaluation

Immigration is primarily a federal concern, and should be primarily regulated through federal policy. But given the extent to which local economic conditions as well as immigrant flows vary, it makes sense that federal reforms should allow for some state-level variability in the how these policies are designed and implemented. For instance, guest worker flows might be based on state-level rather than federal unemployment rates, while policies to aid with immigrant integration will vary across states as well. Alternatively, any fees collected for immigrant entry might be distributed across states according to how many immigrants have recently arrived.

Such variation would allow for research and evaluation of the impacts of different policies for and flows of immigrants on their own outcomes and those of natives. This research would importantly inform policymakers and economists about the costs and benefits of different approaches and therefore enable potential adjustments as time goes on.

## C. The Many Remaining Uncertainties

Having laid out some specific suggestions for legislative reforms, we need to honestly acknowledge just how much remains unknown.

<sup>59</sup> Economists generally believe that prices of goods and services paid by consumers should reflect not only the costs of producing the good or service but also the costs imposed on the rest of society through negative externalities. The most efficient mechanism for assigning these costs is a “Pigouvian” tax (named for early 20<sup>th</sup> century British economist A.C. Pigou) that captures the per-unit costs imposed on society. The revenues from such a tax are then presumably used to remediate the social costs.

<sup>60</sup> Economists believe that the ultimate “incidence” of such a tax may not fall on the employer, but would be shared between employers and employees, with the latter perhaps paying some of it through lower wages. The exact distribution of the tax would depend on elasticities of labor supply and demand, as noted above.

<sup>61</sup> Demetrios Papademetriou, Doris Meissner, Marc R. Rosenblum, and Madeleine Sumption, *Harnessing the Advantages of Immigration for a 21<sup>st</sup> Century Economy: A Standing Commission on Labor Markets, Economic Competitiveness, and Immigration* (Washington, DC: MPI, 2009), [www.migrationpolicy.org/pubs/StandingCommission\\_May09.pdf](http://www.migrationpolicy.org/pubs/StandingCommission_May09.pdf).



Very simply, it is hard to know how the labor market behavior of unauthorized immigrants and employers would respond to any set of legislative changes, and so it is hard to know the likely impact of any such reform. More specifically:

- How effective would new enforcement strategies be in deterring unauthorized immigrants from entering the country and potential employers from hiring them?
- Would the guest worker provisions outlined above be sufficiently attractive, in combination with enforcement efforts, to create an incentive for these workers to become legal and for employers to hire them legally?
- If successful, would the new legal status of many such immigrants and their receipt of market-clearing wages generate a more level playing field in which native-born workers would compete more effectively for at least some of the jobs now held by unauthorized immigrants?
- Would native workers become more interested in some of these jobs, especially if wages rise? How many such jobs would remain available as wages in these sectors rise as well?
- To what extent would granting legal status generate upward earnings mobility and more effective integration for workers who become legal, if they stay permanently in the United States?
- Would a more robust set of workforce development policies be cost-effective at improving the skills and earnings of less-educated immigrants or their native-born counterparts?

What we can observe to date on each of these issues is either not terribly informative or not terribly encouraging. For instance, a recent evaluation of the E-Verify electronic verification program among employers suggests high rates of false positives — about 50 percent or more — because of extensive identity fraud (with large numbers of stolen or borrowed Social Security numbers) among unauthorized immigrants.<sup>62</sup> The program is also costly while covering a fairly small number of employers and jobs.<sup>63</sup> Whether some type of biometric identification can be devised and implemented on a broad scale without a high error rate remains to be seen. Further increasing border enforcement is even costlier and less reliable.

Given the enormous imbalances in earnings levels between the United States and Mexico, it is possible that the flow of unauthorized immigrants will remain large, even in the presence of a competing legal program. Hanson has argued that the creation of a new, legal path to citizenship for those currently here illegally might encourage more people to come illegally in hopes of a future legalization.<sup>64</sup>

With regards to how employers and native-born workers would respond to changes in the legal status of immigrant workers, we do not really know exactly how the various stocks and flows of legal and unauthorized workers would change, and thus the extent to which earnings of currently unauthorized workers would rise. And for any such earnings increase, it is hard to know exactly how native-born workers would respond — whether jobs would continue to be available, and whether US-born workers would continue to compete for these jobs. These issues involve questions of labor demand and supply elasticities — or how employers and workers respond to changes in wage levels — in specific occupational or industry contexts. Our existing empirical evidence tells us relatively little about the relevant behaviors in these contexts and thus provides little to easily inform decisions on immigration policy changes.

62 Department of Homeland Security (DHS), *Westat Evaluation of the E-Verify Program: USCIS Synopsis of Findings and Policy Implications* (Washington, DC: DHS, 2010). [www.uscis.gov/USCIS/Native%20Docs/Westat%20Evaluation%20of%20the%20E-Verify%20Program.pdf](http://www.uscis.gov/USCIS/Native%20Docs/Westat%20Evaluation%20of%20the%20E-Verify%20Program.pdf).

63 DHS, *Westat Evaluation of the E-Verify Program*.

64 Hanson, “Illegal Migration from Mexico to the United States.”



Finally, we have too little evidence on the extent of earnings progress and upward mobility among less-educated immigrants in different employment categories who remain in the country, or on how various workforce development or education programs affect their mobility.

Having said all this, it is important to note that the likely benefits of implementing comprehensive immigration reform still exceed the costs, in my opinion. Not knowing the exact impacts of such measures on outcomes does not become an argument for inaction, given the costs and inefficiencies created by the current system. It merely implies that there remains much to learn, and that any reforms should leave clear opportunities to learn about impacts in order to inform any future reform efforts.

#### **D. A Few Broader Issues**

Besides the specific changes discussed above, some other broader issues will continue to be debated. The biggest is whether the United States should continue to have an immigration system that generates a mix of immigrants that is so heavily tilted towards the unskilled — especially given the arguments that the greatest economic benefits for the country derive from those with the highest levels of education.

Since the current mix of immigrants is heavily driven by a system that places its primary emphasis on family reunification, any policy that would significantly change this mix would have to challenge this pillar of current immigration law. Indeed, the points system proposed in the 2007 Senate legislation would have done just that. Other ways of doing so would be to dramatically expand the numbers of H-1B visas or employment-based green cards for highly educated immigrants, perhaps in ways described above that would create clearer pathways to permanent citizenship for these workers.

Of course, economic considerations are not the only relevant ones for immigration policy; social, political, and humanitarian concerns matter as well, and for these reasons a strong emphasis on family reunification will likely survive. But given the enormous effects this system has on the mix of immigrants and therefore on the economic effects of immigration, the issue should remain one that is openly discussed and debated.

The other big issue — one that is less directly addressed through immigration reform and more through our education, workforce development, and income-transfer policies — involves how can prospects for upward mobility and integration be improved for less-educated immigrants who stay legally in the United States. A fuller treatment of this issue clearly goes beyond the scope of this paper. But I believe that more concerted efforts to improve the prospects of both immigrant and US workers through education and workforce development services will be required.

Simply put, a range of policies that create pathways for advancement for disadvantaged youth and adults — through high-quality career and technical education, community college efforts, and related workforce supports and services — should be implemented to maximize the chances that these populations can advance when opportunities arise in higher-wage sectors with middle-skilled jobs.<sup>65</sup> Of course, such policies would potentially benefit immigrants as well as the native-born. Policies that specifically address the needs of immigrants — such as adult basic education or remedial language efforts in the schools — deserve some support as well.

Other efforts to directly raise the quality of jobs in the labor market — including higher minimum wages, more collective bargaining, and other public efforts to help and provide an incentive for employers to create “good jobs” — would benefit both native and immigrant workers and should be considered as well. Expanded public supports for low-wage workers should be on the nation’s agenda too, even in a fiscal climate that requires major deficit reduction over time.<sup>66</sup>

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65 Harry J. Holzer, Julia Lane, and David Rosenblum, *Where are All the Good Jobs Going? What National and Local Job Quality and Dynamics Mean for US Workers* (New York: Russell Sage Foundation, forthcoming).

66 Higher minimum wages can raise the earnings of less-educated workers, but perhaps with some loss of employment to those





## V. Conclusion

The treatment of less-educated immigrants, and especially the unauthorized, continues to be the most controversial aspect of any potential reform legislation. What principles should guide policies on this topic? What do we know from research on this issue, and what important questions remain largely unanswered? And, in light of what we know and don't know, how should we move ahead on policy?

Immigration reform legislation will no doubt be driven by a range of social and political as well as economic concerns, as it should be. But certainly the economic issues deserve to be among our top concerns. It is reasonable to ask what kinds of reforms would best serve the interests of native-born American workers, consumers, and employers as well as the overall economy going forward. There is a widespread consensus that highly educated immigrants have much to offer the US economy, but much less agreement on what is gained from those who are less educated.

Still, my review of the literature indicates that we know some things with fairly reasonable certainty. Though the extent to which less-educated immigrants compete with and harm their native-born US counterparts has been very heavily debated in the economics profession, the overall findings of this literature suggest quite modest negative impacts. Fiscal costs also appear to be modest. The benefits of low-skilled immigration accrue not only to employers (who benefit from paying lower wages) and high-income consumers (who benefit from cheaper child care, landscaping, and restaurant meals) but also to low-income consumers (in the form of cheaper and more available food, housing, and medical care), workers who can specialize in jobs that require somewhat greater communication and arithmetic skills, and the economy overall.

While the effects of different categories of immigration are often unclear, it seems reasonable that those who are unauthorized pose greater threats to native-born workers in the form of the below-market wages they are often paid. Greater efforts to improve the upward mobility of these immigrants might make them more competitive with Americans in certain sectors and areas, but less so in others; and economic projections suggest that there will be strong enough demand in the “middle-skill” job categories that the labor market can likely absorb larger numbers of both native-born and immigrant workers in this category without great difficulty. Greater skills and earnings among immigrants will likely mean even more improvements in the education and skills of future generations of their offspring, implying greater economic benefits and fewer costs associated with poverty.

In all, it is hard to make the case that the current volume of unskilled immigration to the United States is too high and needs to be sharply curtailed. Any such efforts would certainly lead to disruptions in the labor supply of many industries in various regions of the country in the short term, and might raise costs in the long term as well. It is also hard to make the case that unskilled immigration should be expanded dramatically, on the basis of the benefits and costs it creates. Accounting for future demographic changes, including the imminent retirements of baby boomers, does not greatly change this picture. On the other hand, transforming the current stock of unauthorized immigrants into legal ones and providing for future legal flows is certainly better for them and mostly better for native-born Americans as well.

Accordingly, immigration reform that creates pathways to legal status and citizenship for those already here, and that provides an incentive for employers and immigrants to use newly legal routes, seems very sensible. A range of efforts would improve the incentives of both groups to choose the legal over the illegal route — such as stronger enforcement, allowing legal immigrants to move freely in the US

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groups. See David Neumark and William Wascher, *Minimum Wages* (Cambridge, MA: MIT Press, 2009). Collective bargaining can also improve worker outcomes, but there are also potential employment losses if their higher wages are not offset by higher productivity, especially in more competitive product markets. See Freeman and Holzer, “Memorandum.” The use of tax credits or technical assistance to create incentives for more employers to offer higher wages and benefits and better advancement opportunities to its workers is discussed in Holzer et al., *Where Are All the Good Jobs Going?*, forthcoming.



labor market once they are here, and providing them a path to permanent status. Charging employers some modest fees to offset short-term fiscal costs and modifying the flows in response to changing macroeconomic conditions would further improve the ratio of benefits to costs that accrue to the United States from such a policy change.

Still, the potential effects of reform efforts are sufficiently uncertain that policy changes should be undertaken with some caution. Exactly how employers and immigrants would respond to any legislative changes cannot be predicted with any certainty, just as the responses of less-educated US-born workers to any changes in job market circumstances are unclear too. How future shifts in the domestic labor supply of unskilled workers associated with baby boomer retirements compare with any shifts in demand caused by ongoing technological change, other forms of globalization, and the like, and what these forces mean for the future evolution of earnings and employment for unskilled workers remains unclear.

It makes sense to pursue immigration reform in ways that allow us to experiment with different approaches and to evaluate the labor market impacts of such policy changes as time goes on. Giving states some flexibility in implementing these reforms would provide greater scope to observe variations in market outcomes and policies and to learn from them. Allowing for policies to adapt to future changes — such as having a commission that would direct the loosening or tightening of restrictions according to macroeconomic changes — would be sensible as well.

Having said all this, it is also clear that changes in immigration policy would leave many other issues and concerns unaddressed. While unskilled immigration has clearly not been the major source of economic difficulty experienced by less-educated native-born Americans in recent years, the loss of earnings and employment they have experienced in the past few decades remains profound, and needs greater policy attention. A range of education and workforce development policies that would benefit all low-skilled workers — both native-born and immigrant — deserves greater funding and support. These would include high-quality career and technical education for youth, greater supports for disadvantaged youth and adults at community colleges, and better integration of education and training providers with a workforce system that is more closely linked to employer demand. Direct efforts to improve job quality and expand public supports for the working poor have merit as well.

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*It makes sense to pursue immigration reform in ways that allow us to experiment with different approaches and to evaluate the labor market impacts of such policy changes as time goes on.*

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More serious efforts in this regard could more than offset the modest costs to native-born workers associated with unskilled immigration, and would thus enable us to more fully enjoy the benefits that it provides.



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