

New Views on Immigration

In the past three decades, the share of foreign-born workers in U.S. total employment has increased markedly, from 2.6 percent in 1970 to 13.2 percent in 2003. Among economists, one of the fundamental issues in the immigration debate is estimating the effects that foreign-born workers have on the real wages of U.S.-born workers. Until recently, the findings indicated that there were very few benefits in terms of higher real wages. In fact, some studies had suggested that the effects could be large and negative, particularly for U.S.-born workers with low levels of schooling. For example, one influential study found that, because of immigration, real wages of U.S.-born workers declined about 3 percent between 1980 and 2000 for the average worker and almost 9 percent for workers without a high school diploma.¹

On the other hand, recent studies by economists Ottaviano and Peri identify benefits derived from the diversity of the immigrant population. They argue that previous findings focused solely on the partial effect of foreign-born workers on the wages of U.S.-born workers within very similar occupation and educational attainment groups; but these findings ignored the effects that an increase in the number of foreign-born workers has for groups of U.S.-born workers with different characteristics.^{2,3} The authors accounted for the effects of the differences in educational attainment and occupational choices among foreign- and U.S.-born workers and found that, on average, real wages of U.S.-born workers increased by about 2 percent between 1980 and 2000. They also found that wages of workers without a high school diploma declined in real terms, but only slightly, by about 0.4 percent.

In the context of an increase in immigration, the authors identify two sources of differences between foreign-born workers and U.S.-born workers that affect wages positively. These positive effects rely on the assumption that U.S. firms employ a balanced mix of workers with different characteristics.

First, the authors observe that the distribution of educational levels differs between foreign-born and U.S.-born workers. The share of foreign-born workers with low levels of schooling as well as the share with high levels of

schooling both tend to exceed those of U.S.-born workers. Meanwhile, the share of foreign-born workers with intermediate levels of schooling tends to be less than that of U.S.-born workers. Thus, competition from increased immigration among workers with low and high levels of schooling leads to an increase in employment and to a decline in the wages of workers in these educational levels. Because firms employ a balanced mix of workers, workers with intermediate levels of schooling become comparatively scarcer and their wages rise. The distribution of U.S. workers (about 60 percent of the total) is concentrated at intermediate levels of schooling and the authors find that their gains lead to an overall positive effect on wages.

Second, the authors observe that, even among workers with similar educational attainment levels, foreign-born workers choose very different occupations, attenuating competition for the jobs that U.S. workers seek. U.S.-born workers, particularly those with low and high levels of schooling, possess characteristics that cannot be easily substituted by those of foreign-born workers, so their wages do not decline much in response to an increase in the number of foreign-born workers.

Increased immigration, particularly in the short run, can carry large adjustment costs. The assimilation of new immigrants is associated with an increased need for public spending, the provision of public schools, and law enforcement. Additionally, integration of immigrants into the labor force does not occur seamlessly. In the long run, however, as immigrants are assimilated, their rich diversity of abilities and occupations has the potential to improve the wages of U.S.-born workers. All of these costs and benefits ought to inform the debate over immigration.

—Rubén Hernández-Murillo

¹ Borjas, George J. "The Labor Demand Curve Is Downward Sloping: Reexamining the Impact of Immigration on the Labor Market." *Quarterly Journal of Economics*, November 2003, 118(4), pp. 1335-74.

² Ottaviano, Gianmarco I.P. and Peri, Giovanni. "Cities and Cultures." *Journal of Urban Economics*, September 2005, 58(2), pp. 304-37.

³ Ottaviano, Gianmarco I.P. and Peri, Giovanni. "Rethinking the Gains from Immigration: Theory and Evidence from the U.S." 2006, FEEM Working Paper No. 52.06; <http://ssrn.com/abstract=896667>.