

Immigration and Labor in the U.S. Economy

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Is immigration good for the economy?

Since many immigrants are also workers, understanding the impacts of immigration on wages and labor markets is central to understanding the complex relationship between immigration and the U.S. economy.¹

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Growth in the Labor Force

Immigrants have increased the size and diversity of the American labor force.

One in two new workers since 1990 has been an immigrant. Some came as permanent immigrants, some as temporary workers and some as unauthorized workers. The skills and educational background of immigrants range widely from agricultural workers with little formal education to highly trained medical professionals. In 1960, one in 17 American workers was an immigrant, whereas today the number is one in 7 (see Figure 1).

Growth in the Overall Economy

The availability of more workers facilitates increased investment.

Economic growth is shaped by the availability of resources, including labor. Having enough of the right type of workers to afford investment opportunities allows the economy to grow. Because immigrants bring needed skills to some industries and needed laborers to others, the U.S. economy is bigger than it would have been without immigration.

But effects on wages are more complicated.

Effects on Wages and U.S. Workers

Some workers benefit, while others are disadvantaged.

Immigrants affect the wages of native-born workers (and immigrants who have been here a long time) through competition for jobs. As a group, immigrants tend to have different skills than native-born workers. But the more similar immigrants are to workers already in the United States, the more competition there is for particular jobs. The effect of that competition is softened if immigrants

seek jobs in sectors of the economy that are growing – there is more room for everyone.

Recent immigrants have tended to be either low-skilled or highly skilled. This means that the low-skilled immigrants compete most directly with native-born high-school dropouts while the highly skilled immigrants compete with certain native-born workers having specialized knowledge or skills in areas such as medicine, computer science and bioscience.

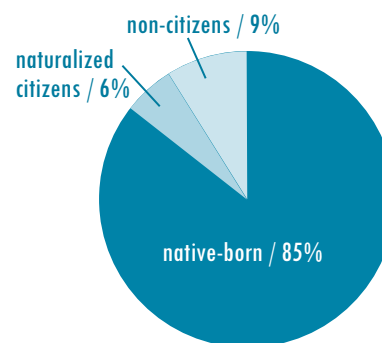


Figure 1: Composition of U.S. labor force: Percent of total by status (2004) **Source:** U.S. Census Bureau, current population survey

Note: Total labor force = 137.2 million, native-born = 117.3 million, foreign-born (i.e., non-citizens + naturalized) = 19.9 million

Immigrants tend to lower the wages of those native-born workers who compete most directly with them.

Low-skilled immigrants compete with other recent immigrants and native-born workers who lack a high school diploma, especially in jobs where knowing English is not important. In the short run, this can lower wages for low-skilled workers. In the long run, as the increased availability of workers and lower

¹ An "immigrant" is a person born outside of the United States, regardless of current legal status (i.e., naturalized citizen, authorized temporary resident, undocumented, etc.).

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wages attracts investment, the negative impacts on wages are mitigated. Economists estimate that immigration since 1990 *lowered* the 2004 wages of native-born high school dropouts between 1.2 and 5.5 percent.

Likewise, highly trained immigrants such as computer scientists compete with native-born workers who are similarly trained. In high-skill areas, however, knowledge is more specialized and there is less direct competition between immigrants and native-born workers. Further, high-skilled workers are relatively scarce and are critical to certain high growth sectors of the economy – there is room for everyone.

Immigrants tend to raise the wages of native-born workers whose skills are complementary to those of immigrants.

Because businesses need a variety of workers to perform a range of tasks, an increase in the number of one type of worker, for example drywall installers, can *increase* the demand for other types of workers, such as construction managers, whose skills are complementary. This tends to raise the wages of those complementary workers. Economists estimate that immigration since 1990, which has included large numbers of low-skilled workers, *raised* the 2004 wages of college graduates from about 0.5 to 1.5 percent.

Effects on Specific Industries

Immigrants are vital to specific industries and their employment tends to cluster in those industries.

Where immigrants work depends on their educational attainment and skills (including English proficiency.) The U.S. education system does not create large numbers of low-skilled workers: in 2004 just 9 percent of native-born 24-year-olds were high school dropouts. Thus, low-skilled immigrants fill a gap in U.S. labor markets, and industries employing large numbers of low-skilled workers depend heavily on non-citizen immigrant labor (see Figure 2).

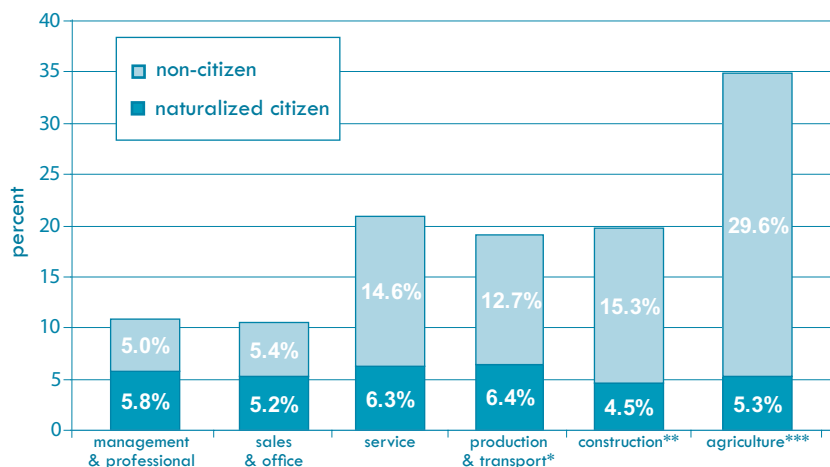


Figure 2: Proportion of 2004 workforce that is foreign born, by major industry group **Source:** U.S. Census Bureau, current population survey

* Includes production, transportation and material moving
 ** Includes construction, extraction and maintenance
 *** Includes farming, fishing and forestry

Note: “Non-citizen” includes recent legal immigrants and illegal immigrants. “Naturalized citizens” are legal immigrants who have been in the United States long enough to learn English and become citizens. Legal channels favor high-skilled workers.

Summary

The overall effect of immigrant labor on the U.S. economy is complex. Immigrants expand the available labor force, especially in certain industries. This increases the size of the economy by expanding investment opportunities, and can create jobs or increase wages in some fields. At the same time, immigrant labor can depress or hold down wages for those native-born workers that compete most directly with immigrants. Thus, while immigrant labor has contributed to overall economic growth, to investment, and to technological innovation in the United States, the effects on individual native-born workers are not uniform. While immigration expands the overall size of the pie, it also impacts how that pie is distributed, benefiting some at the expense of others. This complex set of effects from immigrant labor helps explain the contentious politics and diverse viewpoints held by individuals regarding immigration in the United States today.