

## On the Fence: Are Illegal Immigrants Good or Bad for the U.S. Economy?

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A clash of faiths in the U.S. Senate last week led to the collapse of the country's first major immigration reform bill in two decades. On one side were the pragmatists, backed by the Bush administration, who say the country needs to accept that its estimated 12 million illegal residents are likely here to stay, and it should offer them a path to citizenship.

On the other side were the idealists, who say lawbreakers shouldn't be rewarded, and that doing so would only encourage more illegal immigration. Although Democratic majority leader Harry Reid withdrew the bill, he left open the possibility that the Senate could reconsider it later in the year. President Bush, having just returned from the G8 Summit in Europe, made a rare appearance on Capitol Hill this week to encourage Republicans to back the proposal.

Buried in the ongoing debate is the potential economic impact of a measure that could change the composition of America's workforce in significant ways. By cracking down on illegal immigration, the legislation could constrict the future supply of workers in industries like agriculture, construction and restaurants and hotels, especially in the fast-growing Sun Belt. Yet by moving to an evaluation formula for visas that weighs skills more heavily than family ties, it could provide more workers for such booming sectors as high tech and biotechnology. Even so, some high-tech companies have decried the bill for not providing enough annual visas for skilled workers: It would have capped the number at 200,000 a year.

"What troubles me about the legislation is that it is being marketed as if it does not involve any tradeoffs, that the move to employment-based criterion will be good for the economy and good for the country," says Wharton management professor Peter Cappelli. "In fact, it will create winners and losers. Whether one likes the legislation or not depends on how one feels about those winners and losers."

Cappelli, who heads Wharton's Center for Human Resources, counts low-skilled U.S. workers, especially African-American men, among the potential losers. Research by George Borjas, an economist at Harvard University, has found that, nationwide, the influx of low-skilled immigrant workers from 1960 through 2000 depressed wages and boosted unemployment among comparably skilled African-American males.

Cappelli also argues that supporters of the bill have misrepresented the state of the country's workforce in their efforts to secure its passage. Some proponents, for example, have said that enabling the 12 million existing illegal workers to remain in the United States will safeguard the size of the country's labor force. This is particularly important as Baby Boomers retire, and active workers have to shoulder such hefty costs as their Medicare expenses.

"Both the administration and other supporters of the legislation have asserted that there is a shortage of workers in the economy because the workforce is shrinking," Cappelli says. "This is patently false. The fact that wages have not been rising in real terms -- indeed, in most of the past generation they have been falling for all but the very top jobs -- makes it impossible to believe that we even have tight labor markets." Framing the debate in terms of labor shortages just distracts attention from the issue of wages, he argues. "If we expand the supply of workers through immigration, employers don't have to pay as much to find workers nor provide the other terms and conditions that make jobs attractive."

And the people hurt by such a move tend to be those least likely to have a voice in the political process -- the poor and uneducated. Cappelli speculates that the debate might play out differently if proponents were discussing a massive increase in the number of immigrant "doctors, technicians and managers."

### **Jobs in the Suburbs**

Bernard Anderson, practice professor of management at Wharton, isn't worried about the economic implications of immigration reform, mainly because he sees it having little long-term effect.

For one thing, many of the illegal workers already in the United States are likely to remain, regardless of whether they are offered a path to citizenship. "It's not humanly possible to round up and deport 12 million people," says Anderson, who served as an assistant secretary in the U.S. Labor Department during the Clinton administration. "You hear conservatives rail against amnesty, but not once did I hear them come up with a solution to the 12 million people who are already here."

He also suspects that neither these workers nor future immigrant workers to the United States will crowd native workers out of jobs or put pressure on their wages. Two-thirds of illegal workers are concentrated in four industries: farming; personal service; food preparation, hospitality and tourism; and construction. In those industries, he says, immigrants are either filling job vacancies that would otherwise exist, or they are part of what labor economists called "noncompeting groups."

Consider the construction sector in Philadelphia. "You don't have illegal immigrants constructing high rises in Center City," Anderson says. Instead, those jobs tend to be filled by native-born steelworkers and tradesmen who belong to the city's unions. "But if you go out into the suburbs, into the residential housing developments, much of that type of construction is done by illegal immigrants. Whose jobs did they take? They didn't take anybody's jobs because other workers simply weren't available to do that work."

### **High-tech Migration**

One provision of the proposed reform does worry Anderson: the move from a family-based to a skills-based formula for evaluating visa applicants. That sort of setup has caused problems elsewhere, he points out. In South Africa, for example, men were recruited from other African countries to work as miners and were admitted to the country without their families. "There are all kinds of bad social conditions created by that policy," he notes, including "a tendency to develop a social and economic underclass."

Justin Wolfers, a Wharton professor of business and public policy, also sees potential problems with the push for reform, though for different reasons. He wonders if the focus on border enforcement and tighter restrictions on visas could hurt American competitiveness by impeding the relatively free flow of workers, whatever their skill levels, into the country.

"Economists generally think that free trade in goods is good for both sides," he points out. "Allowing people to cross borders relatively freely may also be helpful. If we restricted that, it could cause economic harm."

Economic strength often stems from happy accidents of history, like Silicon Valley springing up in California's San Francisco Bay area. Initially, the Valley came into being because Stanford University encouraged technology commercialization and California was a pleasant place to live. Today, the region draws skilled workers from around the world because it is viewed as an international high-tech center -- in other words, because techies want to be near other techies, even if it means sitting in the region's now notorious traffic jams.

But this gathering of skilled workers can prove ephemeral. If legislation were to restrict the flow of computer programmers, tech companies could easily migrate to Bangalore or Tel Aviv, which could end up being tomorrow's Silicon Valleys. "In this country, the universities at the top end are arguably a big source of competitive advantage, and that [advantage] could go abroad very quickly," Wolfers notes. "The German system was the best in the world before World War II, and that changed very quickly."

### **Good Lab Results**

In general, immigrant workers tend to seek out booming cities like Las Vegas, Phoenix and Charlotte, N.C., not places like Detroit and Cleveland that are struggling with unemployment. But the effects of these workers on cities are hard to measure: The changes come gradually, and because some of some of the workers are illegal, data can be unreliable.

But David Card, a labor economist at the University of California at Berkeley, realized that one Sun Belt city, Miami, offered an ideal natural laboratory for studying the effects of immigration. Miami has long been a haven for immigrant workers, both legal and not. Many immigrants to the city, especially low-skilled workers, tend to come from Latin America. Spanish is spoken widely.

What caught Card's attention wasn't Miami's cultural diversity. Rather, it was a one-time shock to the city's labor market -- the so-called "Mariel boatlift" in 1980, when about 125,000 Cuban refugees arrived over about three months. Approximately half of the "Marielitos" remained in the city, increasing the workforce by 7%. Many of the immigrants came with limited English and few job skills, so their impact on the low-skill portion of the market was even greater.

Yet in a paper published in 1990, Card found virtually no effect on the wages or unemployment rate of comparable Miami workers over the period stretching through 1985. Unemployment did rise in Miami over the five-year period, but it rose similarly in four metropolitan areas without an influx of new workers -- Atlanta, Los Angeles, Houston and Tampa-St. Petersburg. In other words, the Marielitos didn't cause the rise in joblessness.

How is this possible? Card hypothesized that, thanks to two prior decades of Latin immigration, Miami had ample infrastructure for easing the employment transition for non-English speakers, and the city's robust economy provided plenty of opportunities for work.

Card's subsequent research has confirmed his Mariel findings. For that reason, he's skeptical of politicians' stated desire to reform the country's immigration laws to protect American workers. "A lot of people opposed to immigration are [conservative] and haven't been in favor of programs to retool low-skilled natives," he points out. "Their fundamental concern is about American culture becoming dominated by less-skilled Latinos."

Politicians in border states like Texas and Arizona point to the social costs of coping with illegal immigrants -- like uninsured emergency-room visits and additional police enforcement -- yet these same politicians have plenty of constituents who benefit from the ready supply of cheap, low-skilled laborers, Card argues. "But no one can get up and say we want to increase the number of low-skilled people in the U.S. so [that we can] have low-priced taxi drivers, construction workers and people to work in restaurants and daycare."

Wharton's Anderson goes even further, arguing that, on balance, illegal immigrants contribute far more to the U.S. economy than they take. "Their employers pay Social Security taxes for all of them," though they don't receive benefits, he points out. "When they buy goods and services, they are paying sales taxes. Some of them have purchased homes and pay property taxes. And they are not people who are coming here to be on welfare. They are coming here to work."

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