

To: Interested Parties

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Re: Two Labor Economic Issues for the Immigration Debate

Immigration policy involves fundamental issues about what and who we are as a country. There are no simple answers on immigration policy because different people can legitimately assign different weights to the welfare of new immigrants, recent immigrants, and various groups of natives. In addition, there is considerable debate and disagreement among economists about the economic impacts of immigration.

The Comprehensive Immigration Reform Act of 2006 that was reported out of the Senate Judiciary Committee last week seems to represent a reasonable compromise in view of the competing interests of different stakeholders. Two important economic issues have been overlooked in this debate, however. First, confident predictions that immigrant inflows have depressed the wages and employment opportunities of U.S. workers, particularly of the less skilled, belie an unsettled and often unsupportive research base. The best available evidence does *not* support the view that large waves of immigrants in the past have had a detrimental effect on the labor market opportunities of natives, including the less skilled and minorities. Any claim that increased immigration resulting from the Senate Judiciary Committee's bill will necessarily reduce the wages of incumbent workers should be viewed as speculation with little solid research support. Second, a guest worker program that does not permit free mobility by foreign workers admitted to the U.S. carries significant risks to the U.S. economy. Job shopping is an essential protection against exploitation and inefficient allocation of resources. Limiting the mobility of guest workers would be a step backward for the U.S. economy. Each of these points is elaborated on below.

None of these comments are meant to deny the fact that problems faced by low-skilled workers in the labor market are serious, or to argue that public policy should not address the problems of less skilled workers. Real earnings for those at the bottom of the income distribution have been stagnant or falling for a generation. There are many policies that would be helpful for less skilled workers that deserve consideration, such as an expansion of the Earned Income Tax Credit, an increase in the child tax credit, a boost in the minimum wage, and increased job training. Stricter immigration policy, however, is unlikely to materially affect the earnings or job prospects of less skilled workers.

Effect of Immigration on Natives' Wages and Job Opportunities

- One of the clearest and most compelling studies of the effect of immigration on natives' labor market opportunities was conducted by David Card of the University of

California at Berkeley and published in *Industrial & Labor Relations Review* in 1990. Specifically, Professor Card examined the effect of the Mariel Boatlift — which resulted in 125,000 new Cuban immigrants arriving in southern Florida between May and September of 1980 — on the labor market in Miami. This sudden and unexpected wave of immigration increased the city’s labor force by 7 percent. Most of the new workers were unskilled. Yet Professor Card found that the wages and employment opportunities of unskilled workers who already lived in Miami were not hurt by this large inflow of immigrants. “Even among the Cuban population,” he concluded, “wages and unemployment rates of earlier immigrants were not substantially affected by the arrival of the Mariels.” He reached his conclusions by comparing Miami with other cities that were not affected by the Mariel Boatlift. This study, which is a model for research, was specifically mentioned in Professor Card’s citation when he was awarded the Clark Medal, a prize given by the American Economic Association every other year.

- The central finding of David Card’s study of the Mariel Boatlift — that an unanticipated influx of immigrants does not have a harmful effect on the employment or wages of natives — has been replicated in other settings by other researchers. For example, Professor Jennifer Hunt of McGill University found similar results in a study of the impact on the French labor market of 900,000 people who were repatriated from Algeria in 1962. In addition, Rachel Friedberg of Brown University found that a large inflow of Russian immigrants into Israel after emigration restrictions in the Soviet Union were lifted, which resulted in a 12 percent jump in Israel’s population, did not have a harmful effect on the labor market outcomes of other Israelis.
- Another line of research uses cross-city data to examine how natives’ job market outcomes vary with the share of the workforce in the city contributed by immigrants. This line of research finds mixed results, but is arguably less compelling than studies that focus on large influxes of immigrants to a particular labor because immigrants choose the city in which they settle, and economic conditions in the city are probably an important factor in that decision. By contrast, studies that focus on the natural experiment created by a sudden and unanticipated influx of immigrants to a specific country or labor market have the advantage of analyzing an event in which immigrants entered a labor market for reasons largely beyond their control and unrelated to the state of the economy in the labor market where they sought work. In addition, because these natural experiments are often large relative to the size of the labor market, it is hard to argue that any effect of immigration was offset by an outflow of other residents.
- Studies that claim to find a deleterious effect of immigration on natives’ wages are typically based on theoretical predictions, not actual experience. These theoretical predictions are very sensitive to their underlying assumptions, which are often controversial. Existing theoretical predictions typically do not factor in relevant consequences of immigration, such as an increase in demand for goods and services produced in the U.S. that results from greater demand due to immigrants. They also do not account for entrepreneurship of immigrants.

Those studies that predict the largest adverse impacts of immigration on natives' wages assume that as new workers are added to the U.S. labor market, the size of the capital stock remains unchanged. More realistically, as workers come to the U.S., the capital stock is likely to expand, particularly in the industries where immigrants are most likely to be employed. An increase in investment would mitigate the effects of increased immigration on workers as a whole. Existing theoretical simulations that take investment into consideration show very small effects of immigration on low skilled natives and on average a small positive effect for U.S. residents as a whole.

- Why does immigration apparently have such a benign effect on natives' wages and employment opportunities? The answer to this question is not clear, but it is probably more complicated than the simple response that immigrants take jobs that U.S. workers do not want. One likely factor is that, in addition to increasing the supply of labor, immigrants increase the demand for goods and services produced in the U.S. This leads to higher wages and employment for all workers in the U.S. Immigration can also result in an increase in capital investment. And many immigrants become entrepreneurs, creating jobs for other immigrants and natives. Immigrant entrepreneurs may be particularly likely to develop export opportunities for American products given their connections abroad and language skills.

Guest Workers (H-2c Nonimmigrant Visas) and the Labor Market

- Economic efficiency requires that all workers in the U.S. labor market are treated on a level playing field. This means that the same set of legal protections apply to all workers. The notion of employment at will, or the ability of employers to dismiss workers at will and the ability of employees to leave a job for a better opportunity or for any other reason, is a hallmark of the U.S. labor market. Free mobility of labor is a bulwark against exploitation. Workers who feel mistreated can leave their job to search for another one or exit the labor force. Free mobility is also economically efficient. Workers move to the opportunities that value their services most highly. If guest workers do not have the opportunity to change jobs with minimal administrative burden, other workers in the U.S. will potentially suffer because employers will have some scope to exploit guest workers and lower labor conditions more generally.

- It is important that guest workers are paid wages and fringe benefits that meet the market level and that they are afforded all of the protections under the labor laws that are available to other workers in their position. If not, then the guest worker program will favor industries that hire guest workers over other industries. This type of industrial policy would result in an inefficient allocation of resources. To ensure that workers are paid appropriately and afforded adequate protections is to allow them to change jobs if they so choose.

- The President has proposed that immigration reform include a guest worker program. The Senate Judiciary Committee bill allows up to 400,000 nonimmigrant workers to enter the U.S. each year. This is the equivalent of 38 percent of annual job growth in the last

four years. The provisions of the Senate Judiciary Committee bill call for the temporary visa to expire if the guest worker is unemployed for 60 or more days. The median duration of an unemployment spell in the U.S. currently is 9.6 weeks. Workers can become unemployed for reasons completely unrelated to their job performance; for example, their plant could close. The 60-day restriction could prove to be burdensome for many temporary workers, causing them to quickly find work that is not well suited for their talents or return home. Workers who qualify for Unemployment Insurance are usually eligible for 26 weeks or more of unemployment benefits. Guest workers will presumably pay UI taxes, yet they would not be able to receive more than 60 days of benefits. Treating guest workers differently than other workers will result in an uneven playing field.

- If the only route to citizenship for temporary and immigrant workers is for employers to sponsor them for citizenship after a period of years, then it is inevitable that employers will hold an advantage over temporary and immigrant workers that they do not hold over other workers. This advantage could lead to exploitation that would hurt both foreign workers and domestic workers. One partial solution to this concern is to allow others besides employers to sponsor immigrant and nonimmigrant workers for a Green Card and for citizenship, such as religious organizations, nonprofit volunteer organizations, and community groups. Reducing the scope for employers to exploit immigrant and nonimmigrant guest workers will help protect domestic workers by preventing a race to the bottom.
- The experience with H1-B visas has been that enforcement is inadequate to ensure that all workers are paid what they are promised or paid the prevailing wage. Regulation is unlikely to provide adequate protection for nonimmigrant workers unless they are free to move between jobs with minimal administrative burden and unless they can spend adequate periods of time searching for work should they become unemployed.
- Past experience has been that a great many of those admitted as “short-term” guest workers eventually stay. One concern, however, is that because of their temporary horizons the guest workers fail to acculturate and invest in human capital.
- The guest worker visas, if they are included in the Act, should be available for the largest number of industries and occupations possible to avoid favoring certain industries and occupations. Historically, large guest worker programs were only started during emergencies. The U.S. currently faces, and is forecasted to face, more intense labor shortages for skilled workers than for unskilled workers. Guest worker visas should *not* be limited to agriculture and other industries that intensively use unskilled workers. The best way to allocate H-2c visas would be to have employers pay a fee that is determined in an open auction in order to bring a worker in the U.S. under an H-2c visa. Once the workers are in the U.S., they should be allowed to move between jobs without risk of being sent home for the period of the visa.