



**NEGATIVE
POPULATION
GROWTH**

THE NPG FORUM

Immigration, Jobs & Wages: The Misuses of Econometrics

by Donald L. Huddle

Conventional wisdom has a life of its own. One frequently hears that “immigrants do not displace U.S. labor”. The statement is ostensibly based on econometric models, but models are built on assumptions and simplifications. When those simplifications are further simplified in the popular press, it is very easy to come to “know” something that isn’t so. In this issue of the FORUM, Dr. Huddle looks at the available studies, explains what they really report, and examines the assumptions, biases and other sources of error in such studies. This report will probably be rather formidable reading for the uninitiated, but it is a useful reminder of the pitfalls of conventional wisdom, as conjectural studies harden into “facts” in the public mind.

We would get a very different view of the problem if more people would get out and talk to the people affected. In a forthcoming FORUM article, Dr. Huddle, who is Professor of Economics at Rice University, reports on his on-the-ground research over a period of years in the Houston area.

— Lindsey Grant, Editor

The New Orthodoxy: Immigration is Good for U.S. Labor

There is a new orthodoxy that immigrants, legal and illegal, create jobs and improve wages. In this paper, I will challenge that orthodoxy.

Open-border advocates such as Julian Simon and Karl Zinsmeister of the Heritage Foundation and the American Enterprise Institute¹ assert that immigrants do not threaten even vulnerable, minority unskilled workers. They believe that immigrants complement rather than compete with native workers by filling minimum wage jobs which domestic workers will not take, by attracting industries which otherwise would move off-shore to find cheap labor, and by expanding the macro economy through spending wages earned in the United States. Simon and

Zinsmeister also believe that the U.S. is entering an era of long-term labor shortage in which more and more immigrants are needed to reach national goals of robust economic growth, rising labor productivity, and stable prices.

More recently, University of California Professor George J. Borjas has published a book which has been highly praised by Senator Alan K. Simpson (Ranking Republican, Senate Subcommittee on Immigration and Refugee Affairs). Borjas concludes as follows:²

“Remarkably, economists have quickly reached a consensus on the direction and magnitude of the labor market impacts of immigration. The conclusion suggested by the empirical evidence is likely to be controversial: the methodological arsenal of modern econometrics cannot detect a single shred of evidence that immigrants have a sizable adverse impact on the earnings and employment opportunities of natives in the United States.”

Indeed, Professor Borjas claimed evidence that immigrants not only do not cause harm, but are beneficial in many instances by creating jobs and raising the wages of natives.

This rosy view may already have affected immigration policy. In November 1990, the U.S. Congress passed, and President Bush signed, new immigration legislation (P.L. 101-649). In the parade of witnesses before Congress, the view was often expressed that the U.S. has too few immigrants and that their numbers ought to be increased.

As a result of this legislation, legal immigration was increased by 40 percent from the old limit of 500,000 to a new limit of 700,000 per year, not counting refugees, family members and others outside the quotas. Although the legislation was characterized as a move away from immigration based on family connections to immigration based on skills, in fact both were increased proportionately.

At the same time that legal immigration limits are being raised, levels of illegal immigration are increasing. Border apprehensions of illegal aliens climbed dramatically to over 1 million per year in 1990 for the first time in three years as the residual effects of the Immigration Reform and Control Act of 1986 began to dissipate.

Do Americans really gain from the new higher legal immigration quotas and rising illegal immigration? Undoubtedly there are individual gains due to cheaper labor costs to businesses, lower costs of goods and services to consumers and to more demand for skilled labor as the costs of unskilled labor decline (due to skilled/unskilled labor demand complementarity). Unfortunately such gains may not be generalized across the economy. What is worse, highly vulnerable unskilled minority groups may often be harmed. Even Professor Borjas, who admits to being pro immigrant, finds the quality of U.S. immigrants has declined dramatically since the 1970's due to an emphasis on family reunification in U.S. immigration policy. The worsening quality of immigrants has led to a precipitous decline in immigrant productivity and increased welfare dependency which Borjas would offset by shifting U.S. quotas toward more highly educated and capitalized immigrants.

There are serious flaws in the analyses of both Simon and Zinsmeister as well as in Professor Borjas' typification of the econometric evidence on job displacement and wage depression. As is explained below, the average immigrant, especially the illegal, most probably constitutes a drain and not a gain for the unskilled native worker in the economy.

In the remainder of this paper, I shall look at the econometric studies that have been cited as justification for the policies and developments I have described. By no means do all the studies justify those policies. We will look first at the studies of immigration and its impact on wages, and then turn to the question of displacement of American and resident alien workers by immigrants. I will devote a separate section to the particular issues raised by illegal migration, which poses very different problems from legal immigration (although the distinction is typically blurred by open border advocates).

Finally, as an interesting if imperfectly determinate exercise, I will construct a "Misery Index" drawing upon the best of the econometric exercises.

Does Current Econometric Research Support the Assertion That Immigration Does Not Depress Wages?

Most current scholarly research does not, in fact, support the open-border advocates. Let us examine that research.

The Borjas Study. Borjas found that for each 10 percent increase in immigrant numbers, there is only a slight, if any, negative impact on natives. For instance, for all natives, a 10 percent rise in the number of immigrants decreases native wages by only .2 percent. Thus, a doubling of immigrants, would decrease all natives' wages by only 2 percent, hardly worth a quibble by those concerned with wage-depression.

For native minority subsets of the population, he reaches the same conclusion: neither Black men, young or old, nor Hispanics are harmed. Women actually gain and even the White male is only minimally harmed.

Unfortunately for Borjas, the econometric evidence he cites is not so good. The methodology itself is somewhat weak. The data do not fit the model very well (as evidenced by low regression coefficients). And perhaps most important, Borjas himself has ignored the counter results by citing selectively from the literature.

The conceptual approach in Borjas' model looks simple and straightforward. Native earnings are compared across SMSA's (Standard Metropolitan Statistical Areas) in which there are varying numbers of immigrants to determine if SMSA's with large proportions of immigrants have lower or higher wages than SMSA's with smaller proportions of immigrants.

Here is where we come to that problem of assumptions and simplifications mentioned in the introduction. They can seriously affect the validity of the model. Naturally, native wages among different SMSA's will vary not only because of the different number of immigrants in each SMSA, but because of many other factors. The model used by Borjas and other econometricians attempts to correct for those other important factors such as skill differences, differences in the amount of capital per worker, and whether an SMSA is in a recession or a period of economic growth. Attempts to correct for these other economic factors are imperfect, however, and this in turn affects the validity of the model.

More seriously, the models have oversimplified reality by assuming that the factors they have corrected for have included all of the important factors. But they have not. For instance, economic conditions in a labor market depend upon its history of economic growth and development, the quality of its educational system, and on myriad other variables. That these factors were not explicitly accounted for in the models means that the findings will likely be distorted and yield misleading results.

Borjas turns to other comparative models to attempt to validate his assumptions and results. But when he does so by analyzing the data of SMSA wages between 1970 and 1980, he runs into other serious problems. The foremost of these is that the explanatory power of the models falls from fifty percent to only

ten percent. Econometricians would agree that a model which explains only ten percent of the difference in wages between SMSA's is not very useful.

Bean, Lowell and Taylor. Borjas cites three other recent econometric studies as providing support for the near zero displacement and wage depression hypothesis. The first of these by Professor Bean, Lowell, and Taylor, which seeks to determine displacement brought about by illegal aliens, has virtually the same limitations and small explanatory power as does the study by Borjas above.³ The assumptions needed to create the model itself were incredibly heroic. To mention merely one example, the authors assume a perfectly competitive market in which all firms maximize profits and employ each factor of production until the wage is equal to its marginal productivity. They also assume that they have been able to completely separate all capital and labor inputs in the model, although this is doubtful at best. Finally, they have no direct independent measurement of the numbers of illegal aliens in each SMSA, but depend upon unconfirmable estimates.

Despite this large number of empirically unsupportable assumptions, the final results of the Bean et al study also shows little explanatory power. Fewer than half of the findings were acceptable in terms of normal statistical significance, yet they formed the basis for the conclusion that Mexican illegal aliens do not displace native labor.

LaLonde and Topel. The second study cited is by LaLonde and Topel. It also reaches very strong conclusions such as... "the effect of immigration on natives appears to be minor"⁴. As in the previous works cited, it has very weak explanatory power. For instance, in their several cross-section models of immigrants' and natives' earnings as between various cities, the mathematical range of error ("standard error") of their statistical estimate is actually larger than the size of the impact they derive on wages and earnings in 6 of 8 cases for Blacks and Hispanics in one model and in 11 of 24 cases in another model. Moreover, in all other instances their standard errors are well over half of the coefficient values on which they base their conclusions.⁵

The Altonji-Card Model. A much more puzzling aspect of Borjas' summary of the evidence is that he completely ignored some of the best and most robust econometric results. A study by Professors Altonji and Card was cited by Borjas, but he selected out only one result of one model, the 1980 cross section model for women; he ignored their results showing more definite wage depression for Blacks, Hispanics, Whites, and earlier immigrants.⁶

Altonji and Card have progressed from a model similar to Borjas', to a more sophisticated one. Interestingly, the results varied widely. Their 1970-1980 "cross-sectional" model results were similar to Borjas'. They suggested that immigrants positively affect native unskilled earnings. They then developed an "instrumented first differences model" for the same period. It showed negative impacts. The question is: which results are "better," i.e. based upon a more sound methodology and lower standard errors?

For Altonji and Card, the answer is clear. As they state in technical language:⁷

"the instrumented first-differences results indicate a significantly negative effect of immigration on wages. The coefficient is -1.2 with a standard error of .242. The more negative effect associated with the instrumental variables scheme is consistent with the hypothesis that the least squares estimate is positively biased by endogenous immigration inflows."

In other words, the better model showed a decline of more than 12 percent in the earnings of low-skilled natives for each 10 percent increase in immigrants in a SMSA. The standard error for that model, incidentally, was the lowest of the models discussed.

These are powerful results. A 10 percentage point increase in the number of immigrants in an SMSA results in almost a 20 percent fall in Black males' earnings, and 14 percent for Black females. Since the percentage of immigrants has been rising dramatically in many SMSA's in the U.S. — by more than 10 percent per decade in cities such as Los Angeles, Long Beach, Miami, Atlanta, Albuquerque, and Jersey City, the issue is of more than academic interest.

According to Altonji and Card, the newer model is econometrically much better than those on which Borjas based his summary. Unlike the models by Borjas, Bean, LaLonde and Topel, Altonji and Card focussed on low-skilled native workers — Black males and Black and White females with not more than 12 years of education, White males with less than 12 years of education, and male immigrants with less than average wages. Aside from that shift of focus, they believe the new model eliminates any bias introduced by city-specific effects. Their "instrumental variables" approach takes account of the possibility that immigrant inflows are influenced by local economic conditions. Finally, their "first difference" approach captures the short-run effects of immigration, when the capital stock and the industry skill composition of labor demand have not had time to adjust fully.

For Borjas to have ignored such powerful negative results which the authors believe to be derived from superior statistical techniques has greatly distorted the debate regarding wage depression. Even if Borjas disagrees, the Altonji-Card results cannot be ignored — that less educated Blacks, Whites, and prior immigrants have all experienced wage depression to a substantial degree in SMSA's where there have been numerous and growing immigrant populations.

What Do the Econometric Studies Show About Job Displacement?

Do larger number of immigrants cause native workers to work fewer weeks per year or lose their jobs altogether? Does increased labor market competition cause natives to have greater difficulty in finding jobs, leading to higher unemployment rates?

The Borjas Study. According to Borjas' econometric summary, job displacement caused by immigration is minuscule at best. Following the same SMSA methodology as for wages, a 10% rise in the number of immigrants has virtually no negative

impacts on Black or White male labor force participation rates or number of weeks worked. And the impact on the unemployment rate of natives is 0.

Altonji and Card. Borjas cites Altonji and Card as the data source for the impact of immigrants on both labor force participation rates and weeks worked. Once again, Borjas focuses only on their “cross-section” results. His figures, however, are an inaccurate representation even of the results of those studies. For example, Altonji and Card in the 1980 “cross-section” study find that an increase of 10 percentage points in the proportion of immigrants in a SMSA causes a 1.4% decline in Black male labor force participation, whereas Borjas quotes it as being from -0.1% to +0.4% points. Similarly, Altonji and Card state the impact on White males to be -0.8% per 10% whereas Borjas quotes them as stating it to be -0.1%. Similar differences appear in his citations for weeks worked for both White and Black males. And Borjas entirely ignores Altonji and Card’s findings for both White and Black females and prior immigrants.

What Borjas does not report is as important as those differences. For example, in the 1980 study Altonji and Card show results for five categories of labor force data. Borjas reported only two. Of those not reported, many results were negative. The most flagrant example is from the category “fraction of last year worked”. This category showed large negative coefficients for both unskilled Black and White males (-2% per 10 percentage point increase in immigrants) and Black females (-1.3% per 10 percentage points).

In short, Borjas understated the degree of labor displacement found by Altonji and Card even in their earlier, less sophisticated studies.⁸

The Altonji-Card coefficients in the “first differences” model show even larger negativity than did the other model for “fraction of last year worked” for both Black and White males as well as for labor force participation for Black males and Black females. The other categories were mixed — some positive and some negative, not showing a clear pattern.

The Illegal Alien Problem

Up to this point no distinction has been made between legal and illegal alien immigrants. The econometric studies, excepting that by Bean et al, focus on all immigrants, most of whom are legal. Since the 1980 Census data included up to 2 million illegal aliens, they are included, though as a minor fraction, in the comparisons between cities.

This section will focus almost solely upon illegal aliens. Illegals hurt low-skilled U.S. workers more than do legal immigrants for the following reasons: First, illegals work cheaper, often below minimum wage, and off the books. Second, they have little legal protection from employers who may exploit them. Such employers pay substandard wages, no overtime, and seldom contribute to medical insurance and workers compensation. Third, employers of illegals seldom pay even the legally required social security and federal income withholding taxes on illegal employees’ wages. As a result, the employer pays a lower

gross wage and gains a cost advantage over his market competitors largely at the expense of the U.S. taxpayer and the competing legal immigrant worker.

Public recognition of the tremendous social and private cost of illegal immigration finally forced Congress to take action and pass the Immigration Reform and Control Act of 1986 (IRCA). In fact, IRCA has been a deeply flawed reform, but it temporarily reduced illegal immigration and it took pressure off Congress and the President to do anything about the rupturing U.S.- Mexican border, at least for the time being.

Aside from the econometric studies above, which were cited by Borjas, there is an extensive literature, based on field studies and other approaches, that addresses the problems of labor displacement and wage depression.⁹ On balance, it supports the wage depression and job displacement hypothesis.

Unfortunately, given the paucity of data on illegals and the difficulty of separating their impact from that of legal aliens, the evidence about the specific impact of the illegal migrants is blurred, but here are the highlights of those studies.

Cornelius. Professor Wayne Cornelius, a political scientist who heads the Center for Latin American Studies at the University of California, San Diego, is a noted advocate scholar who has propagated the windfall thesis with respect to Mexican migrant labor. Dr. Cornelius has done extensive field studies on Mexican transborder migrants. His thesis, based on 1960’s and 1970’s data, was that Mexican villagers, who worked in the U.S. seasonally for over three generations on agri-related businesses, have not displaced U.S. labor.

Cornelius believed this migrant cycle to have been advantageous to both Mexico and the U.S. Should U.S. immigration policy attempt to cut off the flow of Mexican seasonal labor, he argued that American laborers would lose out because U.S. businesses would seek out cheap labor overseas, not only in agribusiness, but also in the garment, shoe, and electronics industries as well.

One long standing empirical controversy began when Wayne Cornelius claimed proof that Mexican illegals did not cause the displacement of U.S. workers.¹⁰ His premise was that for displacement to be occurring, unemployment rates in areas with many illegal alien workers should be higher than the national average. Cornelius found the rates were not higher. There seemed to be virtually no correlation between number of illegals and levels of unemployment in the eight labor areas he examined, four of which — Dallas, Fort Worth, Houston, and San Antonio — were in Texas. Contrary to expectations, Cornelius found that unemployment rates in the high-impact areas were even less than the U.S. average. He concluded, therefore, that there had been no labor displacement.

Yet even Cornelius realized that his thesis about migrants had become partly outdated by the early 1980’s. As Mexico’s population surged, bringing one million new entrants into the labor force yearly, along with the deep recession of the 1980’s, there were too few jobs to be had in Mexico. Millions were pushed out of Mexico to the U.S. for economic survival. Al-

though many intended to eventually return to Mexico, most have not because the employment situation has not improved. By now many will not return to Mexico because several million have received amnesty to remain legally in the U.S.

Though not fully admitting that his old model was no longer operational, Cornelius indicates as much indirectly in his summary of current knowledge on Mexican migrants in Southern California. He sums up the evidence as follows:¹¹

"In some labor markets, especially those where labor contractors and sub-contract shops have become prevalent, downward pressure on wages and working conditions may be more severe, and some U.S.-born workers (and even legal immigrants) may be discouraged from seeking jobs in those sectors. . . . There is undoubtedly some level of direct displacement of U.S. born workers and legal immigrants by Mexican illegals, in certain job categories, certain industries, and certain geographical areas. . . ." The new conclusion was that illegal immigrants brought both benefits and costs rather than all windfall benefits as in his prior model. Interestingly, the incontrovertible evidence for the new model was gathered mostly by field researchers and scholars working out of Cornelius' own Center for Mexican - U.S. Studies.

North. David North, himself a pioneer immigration researcher, found that Cornelius had used simple averages of regional unemployment rates. North then took the analysis a step further by comparing unemployment rates of U.S. cities with different ratios of legal Mexican immigrants to the total population. He found that cities which had relatively large number of immigrants, such as El Paso, Santa Ana, Stockton, Los Angeles, and San Antonio, had more unemployment (7.6 percent) compared to intermediate levels (6.2 percent) for medium impact cities, and low levels (5.7 percent) for low-impact cities.¹² Thus, North's results strikingly reversed Cornelius'. North's approach was more convincing than Cornelius', but his basic assumption that illegal aliens were distributed in proportion to the distribution of legal aliens cannot be verified, along with other unverified assumptions, so even his results remain less than completely convincing.

Cross and Sandos. In a later survey, Cross and Sandos concluded that North's results were the more persuasive and support the displacement hypothesis.¹³

Cross and Sandos concluded that both economic theory and wage data suggest that citizen workers are directly displaced by illegals from Mexico. However, they could not determine conclusively the real extent of displacement. To them the most difficult question is not "whether" displacement occurs but to "what extent" it occurs. Their best estimate was that three million illegal workers would displace between 300,000 and 600,000 American workers. Thus, direct displacement would be between ten and twenty percent.

Briggs. Vernon Briggs showed a similar connection within the state of Texas: correlations between the number of

undocumented Mexicans and unemployment and between lower wages and poorer working and social conditions in south Texas as compared to non-border areas.¹⁴

Smith and Newman. Later on, Smith and Newman carried out a fairly sophisticated check of the Briggs hypothesis when they compared labor market conditions in three border areas — Brownsville, Corpus Christi, and Laredo — to those in Houston.¹⁵ The study presumed that any "unexplained" variance between wage scales in Houston and those in the border areas would be a result of the (assumed) lesser presence of illegal migrants in Houston. In fact, they did find an eight percent real wage differential in Houston's favor, their conclusion being that forces along the border did depress wages and earnings.

Smith and Newman's approach, while it was a step forward, understates the amount of displacement simply because Houston is proximate to the border and has the largest illegal population in Texas. Illegals regularly come to Houston and, if they are apprehended by the INS, they rapidly return in a short time. Since Houston is so close to the border areas and since its economy was expanding rapidly during this period, its attractiveness to illegals seeking work held down its wage differential. Otherwise the eight percent differential found by Smith and Newman would have been larger, implying much greater displacement. Moreover, wage differences and measured displacement were held down in the border cities themselves as both Mexican Americans and non-Mexicans emigrated in search of higher real wages elsewhere in the U.S. If not for this movement, observed displacement would have been higher.

Van Arsdol. Quite aside from wage rate and unemployment differences between areas and cities, other researchers have analyzed wage scales of legal workers and compared them to those of illegal workers of similar skill. If illegals are working at wages as high as or higher than the minimum at which legals are willing to work, displacement may be occurring.

The Van Arsdol team data for Los Angeles indicated that of 1,956 workers interviewed between 1972 and 1975, the majority of whom were Mexicans, the upper quartile earned between \$17,000 and \$18,000 per year in 1986 prices.¹⁶ In Texas, annual earnings levels for the top forty percent of illegal workers apprehended by the INS have been lower than in Los Angeles, but are still higher than commonly believed — ranging from \$14,000 to \$15,000 per year.

Papademetriou and Muller. A joint study of New York City by these authors asserts a thesis closer to Cornelius. Although Papademetriou and Muller admit there were some negative effects of immigrants on New York natives, they believe these were much more than counterbalanced by the positive impacts of greater competition, more jobs, wage growth, keeping industries at home, and the positive macroeconomic impacts of greater immigrant spending.¹⁷

Unfortunately, the authors' upbeat conclusions regarding immigrants, particularly illegal aliens, are not persuasive. First, their study apparently excluded micro-economic labor markets — labor displacement is studied only at the macro level. Second, their study offers little detail and is limited almost exclusively to

the legal immigrant population. Third, the study takes little notice of other economic factors which influence displacement.

Marshall. One study by Adrianna Marshall, which did take account of the influence of these other economic factors, arrived at very different conclusions. When comparing New York's high immigrant population with other cities, such as Philadelphia, with a low immigrant population, she found that wage growth was actually much slower in New York than in low immigrant cities after controlling for important factors such as industrial structure, unionization, productivity, inflation, and unemployment rates.¹⁸

Other Studies. Council of Economic Advisers Chairman Beryl Sprinkel in 1987 claimed that labor displacement was near zero.¹⁹ He later drew back from that claim. In fact, neither Sprinkel nor the Council itself had conducted any studies, but merely seemed to be reciting Simon, Muller, and a Rand Corporation study selectively.²⁰

The only official study, by the U.S. Government Accounting Office, which synthesized information from more than 51 studies, in 1986 very cautiously concluded the following:²¹

"...illegal workers were found in all major categories of industry and occupation. Their presence in agriculture decreased and in other sectors of the economy increased as they became more settled. This suggests the possibility of widespread displacement... data from both types of study are consistent with the findings that illegal alien workers probably displace native workers."

The "Misery Index": The Impact of Immigration Growth on the Unskilled Native Worker

To measure just how the unskilled are affected by the growth of immigration, the concept of the "immigration misery index" is developed here, drawing upon the Altonji-Card "first differences" model. The misery index is defined as the measured negative changes in three labor force categories — the wage rate, the ratio of labor force participation to population, and the fraction of the past year worked. Obviously, declines in these measures mean less work and lower earnings and hence more misery for the unskilled native work force.

The data and the derivation of the "immigration misery index" for 1970-1980 are shown in the table. The index is derived for all unskilled natives—in all SMSA's the overall misery index increased by over 15 percent for each 10 percentage point increase in immigrants — and for each category of the unskilled. The greatest negative impact was on Black males, for whom the index increased by almost 25 percent. Black female and White male earnings and jobs declined by about 18 percent. White females were least impacted at 12 percent.

Real wages were already declining during the 1970-80 decade by more than 8 percent, so immigration-induced misery was added to an already deteriorating real standard of earnings.²²

Admittedly, the immigration misery index is based upon an econometric study and therefore it is not definitive due to

TABLE I
THE IMMIGRATION MISERY INDEX:
The Impact of Immigrants on the Labor Force Participation,
Amount Worked, & Earnings of the Native Unskilled Workers
(Per 10 Percentage Point Increase in Immigrants)

	<u>All</u> <u>Unskilled</u>	<u>Black Male</u>	<u>Native Unskilled Workers</u>		
			<u>White Male</u>	<u>Black Female</u>	<u>White Female</u>
1. Labor Force/ Population:	- 1.02%	- 2.73%	+ .36%	- 2.21%	- .44%
2. Fraction Worked Last Year:	- 2.46%	- 2.68%	- 6.09%	- 2.19%	-1.62%
3. Earnings/Week:	<u>-12.05%</u>	<u>-19.10%</u>	<u>-11.03%</u>	<u>-13.69%</u>	<u>-9.55%</u>
SUM TOTALS	-15.53%	-24.51%	-16.76%	-18.09%	-11.61%

Source: Adopted from Altonji and Card, *op. cit.* Tables 7.7 - 7.12, pages 220-224 for first-differenced coefficients 1980-1970 instrumented variables.

potential biases and sources of error. It is, however, based upon Altonji and Card's "instrumented first differences" model — considered by some to be the most definitive study to date of the impact of immigrants upon unskilled natives.

Nor does the immigration misery index pretend to measure all impacts of immigration. For instance, the index excludes overcrowding, environmental deterioration, and crime, all of which would tend to increase misery.

Quite aside from these excluded factors, however, the index probably understates negative impacts on wages and employment of unskilled workers because it is diluted. The employment data that Altonji and Card (and Borjas) use are for Standard Metropolitan Statistical Areas (SMSA's). As Vernon Briggs pointed out:²³

"An SMSA contains a large central city and, usually, its several adjacent counties . . . If foreign born workers are disproportionately concentrated in the central cities of SMSA's (which they are), the inclusion of the data for adjacent counties will dilute the measurement of their impact in the labor markets of the central cities."

Moreover, the misery index does not reflect the facts as seen on the ground. Net labor displacement was shown to vary over time from 27 to 50 percent in the Houston SMSA according to our field experiments (to be reported in a subsequent FORUM article). Yet, according to the econometrically derived "misery index", displacement in Houston was only 2.8 percent and wage depression 9.6 percent.

The misery indexes for the native unskilled in the central cities could be substantially higher (perhaps by a factor of 3 or more) than the totals shown in the table. But there is no definitive way of accounting for the large differences at this juncture.

Conclusions and Final Observations

Contrary to statements made by Borjas, Cornelius, Papademetriou and Muller, the most sophisticated and perhaps methodologically sound econometric studies strongly support the wage depression-labor displacement hypothesis for unskilled citizen workers. I have pointed out that the Altonji-Card study suggests that increasing numbers of immigrants caused an average 12 percent decline in the wage rates of unskilled legal U.S. workers in samples covering 91 to 121 SMSA's across the U.S. between 1970 and 1980. Labor displacement occurred, and labor force participation rates were also negatively affected across the nation, though less than the wage depression.

Notwithstanding the apparent improvement in methodology reflected in the newer Altonji-Card model, we cannot be confident that their estimates are definitive. The current state of econometrics in this area is in some disarray. Estimates vary widely, as do the models.

Despite this state of confusion, there seems to be emerging some consensus that there are real negative impacts on low-skilled natives. Professor Borjas himself, in a recent working

paper, substantially revises his earlier conclusion that immigrants do not depress wages of unskilled natives. To quote:

By 1988, trade and immigration increased the effective supply of high school dropouts by 28 percent for men and 31 percent for women. We estimate that from thirty to fifty percent of the approximately 10 percentage point decline in the relative weekly wage of high school dropouts between 1980 and 1988 can be attributed to the trade and immigration flows.²⁴

Numerous non-econometric studies (including ours in the Houston SMSA) have also concluded that immigration has substantial negative wage and employment effects.

The plight of the unskilled worker will likely become more rather than less serious. The Immigration Act of 1990 will increase legal immigration by 200,000 or more per year. Although some of the new immigrants will be skilled and educated workers who will presumably not compete with unskilled workers, the great majority of the new immigrants will compete with them. In an earlier NPG FORUM paper Vernon Briggs pointed to our failure to synchronize immigration flows with the demonstrated needs of the U.S. labor market.²⁵ U.S. immigration policy has penalized U.S. minorities and unskilled workers.

Efforts are now under way in Congress to repeal the employer sanctions portion of the Immigration Reform and Control Act of 1986. Imperfect as they have been, employer sanctions have at least partially slowed potentially massive flows of illegal aliens from Mexico and Central America. Employer sanctions have been found to be discriminatory by the GAO, but hiring practices are probably no more discriminatory now than they were prior to employer sanctions. Their repeal, in any event, will primarily hurt those who compete most directly with illegal aliens — the unskilled, minority worker. If anything, employer sanctions should be strengthened.

The Bush administration is also pushing hard for a Free Trade Agreement (FTA) with Mexico. An FTA will mean an exportation of U.S. jobs as our capital flows to Mexico. It may also result in increased immigration.²⁶

As more U.S. jobs and capital go south, and as larger numbers of immigrants, legal and illegal, enter the U.S. job market seeking a shrinking number of unskilled jobs, we must wonder when we as Americans will begin to weigh the plight of our own unemployed and low-wage underemployed more heavily in our policy decisions. With more than 32 million Americans in poverty and more than 10 percent of the potential labor force unemployed and underemployed, a well conceived and implemented shift in policy is needed now.

NOTES

1. Julian L. Simon, *The Economic Consequences of Immigration*, (Basil Blackwell Ltd. and The Cato Institute, 1989) especially pp. 194-253. Simon has many other articles devoted to questions of labor displacement and wage depression which are quoted in the above chapters. Karl Zinsmeister, "Does the United States Need Immigration Generated Growth?" presented at the conference: The Purpose of Legal Immigration in the 1990's and Beyond. The Federation for American Immigration Reform,

- Washington, D.C. June 10, 1988. Zinsmeister was basically attacking Governor of Colorado Richard Lamm's position on the negative impacts of both legal and illegal immigration.
2. George J. Borjas, *Friends or Strangers: The Impact of Immigrants on the U.S. Economy*. (Basic Books Inc., New York, 1990) 80-81.
 3. Frank D. Bean, B. Lindsey Lowell, and Lowell J. Taylor, "Undocumented Mexican Immigrants and the Earnings of Other Workers in the United States", *Demography*, (Vol. 25, No. 1, Feb. 1988), 35-52.
 4. Robert J. LaLonde and Robert H. Topel, "Labor Market Adjustments to Increased Immigration": in John M. Aboud and Richard B. Freeman (eds.), op. cit. (Table I (5)), 167-200.
 5. Ibid, Table 6.10, p.186.
 6. Borjas, *Friends or Strangers*, op. cit. p. 87. Borjas does not explain how he derived average values in his table. He explained to me in a telephone conversation on January 24, 1992 that he did not fully understand the instrumented variables model of Altonji and Card and therefore he did not use it.
 7. Joseph G. Altonji and David Card "The Effects of Immigration on the Labor Market Outcomes of Less-skilled Natives", in Aboud and Freeman, op. cit., p. 221.
 8. This may have been partly unintentional. Professor Borjas stated in a 1/24/92 telephone conversation with me that he was working with an early draft of the Altonji-Card paper.
 9. David North and Marion Houston, *The Characteristics of Illegal Aliens in the U.S. Labor Market: An Exploratory Study* (Washington, D.C. Linton and Company and New TransCentury Foundation. March 1976.)
 10. For this controversy see Harry E. Cross and James A. Sandos, *Across the Border: Rural Development in Mexico and Recent Migration to the United States* (Institute of Government Studies, University of California, Berkeley, 1981), pp.85-89.
 11. Wayne A. Cornelius, Leo R. Chavez, Jorge G. Castro, *Mexican Immigrants and Southern California: A Summary of Current Knowledge* (Center for U.S.-Mexican Studies, University of California, La Jolla, California, 1982), p. 46.
 12. David North in U.S. Congressional Record, Senate, (S 19523-S 19525, December 20, 1979.)
 13. Op. cit. Cross and Sandos, p. 85.
 14. Vernon M. Briggs, Jr. *Mexican Migration and the U.S. Labor Market* (Center for the Study of Human Resources and the Bureau of Business Research, The University of Texas, Austin, 1975), pp.25-30.
 15. Barton Smith and Robert Newman, "Depressed Wages Along the U.S. - Mexico Border: An Empirical Analysis," *Economic Inquiry*, (15 January 1977), pp.51-66.
 16. Maurice Van Arsdel, Joan W. Moore, David M. Heer, and Susan Paulivir Haynie, "Non-Apprehended and Apprehended Undocumented Residents in the Los Angeles Labor Market," (Report prepared for the Employment and Training Administration, U.S. Department of Labor. Los Angeles, 1979.)
 17. Demetrios G. Papademetriou and Thomas Muller, "Recent Immigration to New York: Labor Market and Social Policy Issues." A Report Prepared for the National Commission for Employment Policy (Washington, D.C. February 1987), p.166.
 18. Adrianna Marshall, "Immigration in a Surplus Worker Labor Market: The Case of New York." (New York University, Research Program in Inter-American Affairs. 1983.) Gregory De Freitah and Adrianna Marshall, "Immigration and Wage Growth in U.S. Manufacturing in the 1970's." (Annual Meeting of the Industrial Relations Research Assoc., San Francisco, CA, Proceedings 1984.)
 19. The original statement by Sprinkel was in *The Economic Report of the President* (Washington, D.C., February 1987).
 20. Kevin McCarthy and R. Burciago Valdez, *Current and Future Effects of Mexican Immigration in California*, (the Rand Corporation, R-3365-CR, Santa Monica, May 1986, pp.1-103.
 21. United States General Accounting Office, *Illegal Aliens: Limited Research Suggests Illegal Aliens May Displace Native Workers*. (Washington, D.C. April 1986), p. 35.
 22. *Economic Report of the President* (U.S. GPO, Washington DC, 1990). Table C-44, p.344. Private average weekly earnings fell from \$187 in 1970 to \$173 in 1980; 1977 dollars.
 23. Vernon M. Briggs, Jr., "The Declining Competitiveness of Immigrants - Review: George J. Borjas Book," *Friends or Strangers: The Impact of Immigrants on the U.S. Economy*. (The Center For Immigration Studies, Scope, No. 5, Summer 1990), p.4. Note that the employment effects in industry are likewise understated by the econometric studies by using the broad classifications such as manufacturing rather than specific sub-classifications such as apparel manufacturing. Since immigrant workers tend to be crowded into a few sub-classifications, the adverse effects of immigrant workers on wages and employment opportunities for all workers in the broad industrial classification are minimized.
 24. George J. Borjas, Richard B. Freeman and Laurence F. Katz, "On the Labor Market Effects of Immigration and Trade", National Bureau of Economic Research Working Paper No. 3761, June 1991, p.33.
 25. Vernon M. Briggs, Jr., "Political Confrontation with Economic Reality: Mass Immigration in the Post-Industrial Age," the NPG FORUM (February 1990).
 26. Lindsey Grant, "Free Trade and Cheap Labor: The President's Dilemma", the NPG FORUM (October 1991.)

NEGATIVE POPULATION GROWTH, INC.

210 The Plaza, P.O. Box 1206, Teaneck, N.J. 07666-1206, Telephone: (201) 837-3555

NPG, Inc., is a nonprofit organization founded in 1972. Annual dues are \$30, and are tax deductible to the extent the law allows. It publishes from time to time in the *NPG FORUM* articles of particular interest on population, immigration, resources and the environment. The views expressed by the authors do not necessarily represent those of **NPG**.

The papers are priced at \$1.00 each, including postage and handling. For orders totalling ten or more, the price is \$.25 each. Single copies of each paper are free to the media and to NPG members. Papers are also free to libraries, if orders are accompanied by one self-addressed stamped envelope for each paper ordered.