Immigration and Jobs:
The Process of Displacement

by Donald L. Huddle

In the preceding NPG FORUM, Dr. Huddle examined the conclusions — and the pitfalls — in econometric models that purport to show the impact of immigration on U.S. labor. The nation would probably understand the problem better if more time were spent on the ground, studying the impact, rather than preparing elaborate models. In this issue, he reports the result of his own extended observation of the displacement process in Houston. Dr. Huddle is Professor of Economics at Rice University.

— Lindsey Grant, Editor

In this paper, I attempt to measure the displacement of American labor by illegal aliens. As a first step I analyze a 1982 experiment by the Immigration and Naturalization Service which tried to provide jobs for American citizens and legal residents by deporting illegal aliens who held relatively high paying jobs in nine major U.S. cities. Second, I describe my own practical on-the-ground measurement, correcting for false “displacement” of Americans and legal residents not actually looking for work.

In this second project, we completed three separate field surveys during different phases of the business cycle in the 1980’s, each of which gave a more serious picture of the displacement problem than did the econometric models in my earlier NPG FORUM article. Moreover, the field surveys showed the process whereby illegal immigrants undercut the legitimate job market and create an underground economy serving unscrupulous employers.

It is particularly important during this technological era in which unskilled jobs at livable wages are drying up to understand how the process of displacement squeezes the poor and the minorities — who are the beneficiaries of massive government spending programs—out of the opportunity to join the economic mainstream.

Project Jobs and What it Showed About Labor Displacement

In the spring of 1982, during the depths of a recession when the U.S. unemployment rate was nearly 10 percent, the Immigration and Naturalization Service decided to remove “undocumented” workers from jobsites in nine major cities, including Los Angeles, San Francisco, Denver, Chicago, Detroit, New York City, Newark, Dallas and Houston. During a five-day period, April 26-30, special forces of some 400 immigration investigators and border patrolmen, under the operation called “Project Jobs”, raided employers who commonly hired illegal aliens.

The two-fold purpose of the operation was: first, to prove that illegal aliens were holding jobs that paid much better than the minimum wage of $3.35 per hour; and second, to make such jobs available to unemployed Americans and legal-resident aliens.

In total the INS picked up 5,440 employed aliens at 460 jobsites, plus 195 others who were hanging around the jobsites. About 78 percent of the undocumented workers were in industry, 13 percent in services, and 8 percent in construction. Of the total apprehended, 87 percent were of Mexican origin.

What did my follow-up study of Project Jobs show? First, an average of seven U.S. workers applied for each job vacated by an alien and second, about 80 percent of the job openings were filled — at least for a short time — by citizens or legal-alien workers.

The primary reason for the strong response was the relatively high wage rates reported for these jobs. According to INS statistics, only 2 percent of the apprehended aliens made less than the federal minimum wage of $3.35 per hour. Six percent made more than $7.85 per hour. In the nine cities we studied, the hourly pay on vacant jobs ranged from $4.37 up to $9.00 per hour while the average wage was $4.87 per hour — more than 45 percent above the minimum wage.

Follow up work by reporters of the Wall Street Journal and the Los Angeles Herald Examiner found that at least 40 to 50
percent of the illegal aliens had returned to their former jobs by July in Los Angeles and in Houston. The \textit{Journal} reporter quoted a migrant labor expert Wayne Cornelius who suggested that U.S. workers may have quit for any of three reasons: A declining belief in hard work as a means of improving one's economic position; higher educational levels of U.S. workers; and expectations of a better job. Moreover, according to Cornelius, jobs opened by the raids were mostly seen as "Mexican jobs" or "Hispanic jobs" that "people born, brought up and educated in the U.S. shouldn't have to do."2

We did our own careful and extensive analysis of the evidence from the nine U.S. cities where aliens had been rounded up during Project Jobs. We reached two conclusions: first, that U.S. workers really wanted many of the vacant jobs — but not the most exploitative ones; and second, that the explanations of the \textit{Journal} and Professor Cornelius were misleading simplifications based on superficial evidence.

Shortly after the raids, we interviewed jobless workers at the office of the Texas Employment Commission. Eighty-two percent of the job applicants were minorities, mostly Blacks, but also Hispanics and others. As an experiment to determine whether such unemployed U.S. workers were really displaced, we tried to place the job applicants with the 17 Houston employers who had been raided by the Immigration Service task forces, and who had complained that U.S. workers could not be found for such work. But we were too late. The employers had already filled most of the vacancies, usually less than one week after the raids. The significant fact is that 60 percent of these jobs were filled with U.S. workers who had learned about the INS raids and the job openings not from state employment agencies, but from the local newspaper, and then rushed directly to the employer. The other 40 percent were filled by undocumented workers who had returned after their apprehension, in many cases, to jobs that had been held open for them by employers who preferred illegal workers.3

\section*{The Concept of Displacement and What Field Studies of Displacement in the Southwest Have Shown}

The displacement rate is defined here as the number of American and legal immigrant workers who are not able to work per 100 undocumented workers who have jobs. Displacement will vary with the wage and employment rate, the safety and pleasantness of the job, the potential for raises and promotions, and other factors. For example, few Americans would be displaced in dirty, unsafe minimum-wage jobs with no prospect for promotion. The displacement rate would be much higher for clean, safe jobs at $5 per hour. Our own studies have arrived at a rate of displacement for a large number of jobs. However, it is useful to also look at the array of recent wage rates and jobs held by illegals to see actual examples of individual displacement.

As a prelude to discussing the three field surveys done on the ground to determine labor displacement, we can compare two other sets of data shown in Table 1. The first shows the wage structure of a sample of 431 Houston illegals who worked in services, light manufacturing and construction and were apprehended by the INS during the year 1985. Only 3.8 percent earned less than $3.35 per hour — the then minimum wage — while more than 20 percent earned more than $5.25 per hour. The second set of data shows what pay rates 250 Houston citizen and legal residents said they would require to take unskilled jobs similar to those held by illegals in the very same industries. Almost 1 percent of the legal unemployed claimed they would work at or less than the then minimum wage of $3.35 per hour; 51 percent at $5.25 or less; and fully 82 percent would work full time at $7.00 or less. If we compared the two wage structures of legals and illegals, we find that at least 80 percent of the sample unemployed legal Houstonians could have been employed at or above the wage rate they said they would need.

\begin{table}
\centering
\begin{tabular}{|c|c|c|c|}
\hline
\textbf{Wage Rate Required} & \textbf{Cumulative} & \textbf{Illegal Worker} & \textbf{Cumulative} \\
& \textbf{Percent} & \textbf{Actual Wage Rate} & \textbf{Percent} \\
\hline
$3.35 or Less & 12.9 & Under $3.35 & 5.8 \\
\hline
$3.36 to $4.25 & 26.7 & $3.35 - $4.25 & 59.9 \\
\hline
$4.26 to $5.25 & 50.8 & $4.25 - $5.25 & 77.6 \\
\hline
$5.26 to $7.00 & 80.0 & Over $5.25 & 100.0 \\
\hline
Above $7.00 & 100.0 & & \\
\hline
\end{tabular}
\caption{Comparison of Illegal Wages and Wage Rates at Which Unemployed Houston Workers Would Work}
\end{table}

We recognize that this displacement rate (80 percent) will likely be too high. First, the unemployed legal worker may not reveal his true intentions and preferences. Despite assurances to the contrary, he may suspect that the field researcher is somehow connected to the Texas Employment Commission and that he could possibly lose access to unemployment insurance if he answered that he would not be willing to take an unskilled job at $7 an hour or less. This was a criticism leveled at a survey by the \textit{Los Angeles Times} which showed that a sizable majority of unemployed native workers would take jobs vacated by apprehended illegal aliens.4

We wanted to go beyond prior surveys in determining whether U.S. workers would in fact take jobs similar in kind and wage rate to those held by undocumented workers. To test the true intentions of the U.S. unemployed, we set up an elaborate job bank and distributed a number of unskilled job openings on a weekly basis to a sample of unemployed Houstonians at wage rates less than $7 per hour. We then tracked the actual job search efforts of the sample unemployed over a period of 2 to 3 months. The results are shown in Table 2. Under part 1 are set out the number of unemployed originally surveyed, their ages, race, education, the number of dependents, and gender. In section 2, we adjust the number for those unemployed who were overqualified for unskilled employment by virtue of past experience and education by removing them from the sample. In section 3, is indicated the percent of those remaining who said they would take illegal alien type unskilled jobs at $7 or less per hour. Then in section 4 we subtract the percent who failed the job
TABLE 2

<table>
<thead>
<tr>
<th>Category</th>
<th>Statistical Results</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>1982-83 Study I</td>
</tr>
<tr>
<td>1. Number Surveyed of Unemployed Natives</td>
<td></td>
</tr>
<tr>
<td>Average Age</td>
<td>130</td>
</tr>
<tr>
<td>Race: Black</td>
<td>31</td>
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<tr>
<td>Hispanic</td>
<td>52.3%</td>
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<tr>
<td>White</td>
<td>16.2%</td>
</tr>
<tr>
<td>Other*</td>
<td>23.1%</td>
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<tr>
<td>Average Education in Years</td>
<td>8.4%</td>
</tr>
<tr>
<td>Average No. Dependents</td>
<td>12</td>
</tr>
<tr>
<td>Gender: Percent Male</td>
<td>2.6</td>
</tr>
<tr>
<td>Gender: Percent Female</td>
<td>79.2%</td>
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<tr>
<td></td>
<td>20.8%</td>
</tr>
<tr>
<td>2. Number Surveyed Adjusted for Those Who Were Overqualified:</td>
<td>87</td>
</tr>
<tr>
<td>3. Percent of Qualified Who Agreed to Take Labor Jobs @ $7/hr. or Less:</td>
<td>100%</td>
</tr>
<tr>
<td>4. Percent of Qualified Who Failed Job Search Requirements:</td>
<td>9.4%</td>
</tr>
<tr>
<td>5. Gross Job Displacement:</td>
<td>90.6%</td>
</tr>
<tr>
<td>6. Minus Actual % of Qualified Who Got Jobs During Study:</td>
<td>37.5%</td>
</tr>
<tr>
<td>7. Net Displacement Rate:</td>
<td>53.1%</td>
</tr>
</tbody>
</table>

* Other consisted of Oriental, Indian and Mideastern.
** The major factors for failure in job search were: transportation, failure to follow up on job leads by telephone or in person where appropriate, dislike physical labor with no physical handicap, pay too low despite no college or special training, poor attitude, and lack of any job search skills and failed to return calls. Some participants had failures in several areas.

Source: Field studies of Houston Metropolex in 1982-83 for Study I; 1985 for Study II; and Study III in 1989-90 at Rice University under Professor Huddle’s direction.

search requirements in order to arrive at the measure of gross job displacement. Finally, we have computed a more conservative figure defined as the net displacement rate — it is the gross displacement rate minus that percent of the legal unemployed who actually obtained jobs either through our job bank or by some other means during the period of the survey. Thus, our measures not only indicate the rate of job displacement at the point in time at which the survey was initiated — gross displacement — but displacement after a period of months in which we actively sought to place the unemployed legal workers.

The three field surveys on displacement were completed in the years 1983, 1985 and in 1990. The most important finding of the field surveys is that — while 85 to 100 percent of the 463 Houston unemployed said they would do unskilled labor at $7 per hour or less — after adjustments for job-search failure, between 63 and 91 percent were displaced in the different surveys by the definition of gross job displacement and 23 to 53 percent were displaced by the definition of net labor displacement. After months of effort to find them jobs, between 9 and 22 percent of the unemployed failed the job search tests. One-third to two-fifths of the samples actually found jobs.

As can be seen in Table 2, both the gross and net displacement rates varied over time. This variation is explained primarily by the deepening Houston recession between 1982 and 1985,
followed by economic recovery by 1989-90. Both the net and gross displacement were fairly constant between 1982 and 1985, during a time of rising overall unemployment in the city (from 8 percent in 1982 to 8.3 percent in 1985).

By 1989-90 gross displacement had fallen dramatically to 63% and net displacement to 23 percent as the city’s unemployment rate fell (from 10.2 percent in 1986 to 5.2 percent by 1990). In short, by 1989-90 the unemployed had higher expectations and became more choosy about jobs, and greater numbers failed the job search tests (from 11.1 percent in 1985 to 22.4 percent in 1989-90).

What does it mean to measure net displacement rates varying from 53 to 23 percent between 1982 and 1990? First, it means that the rate of displacement is variable and partly dependent upon the business cycle. Second, it means that even in recessionary times there are some jobs which the native unemployed do not want due to low pay, poor working conditions, and lack of upward job mobility. Labor economists and immigration specialists agree that few native workers want to work as domestic servants, or as migrants in agriculture. For one thing, in the Southwest, according to Professor Stoddard, these jobs and job standards have become “Mexicanized” and so has the recruiting and contracting system for such labor; American workers do not compete—or want to compete—for jobs created by immigrants for immigrants. For many of these jobs, there are no fixed labor or wage standards, no paper receipts, no social security tax receipts. These jobs involve the employment of undocumented aliens, often through relatives, compadres, or friends of the same ethnicity working in family grocery stores, restaurants, boarding houses, retail shops, food preparation and processing, garment work in the home, and so on. This is part of America’s half trillion dollar underground economy. Obviously, the more immigrant colonies expand, the more job opportunities there are for immigrant workers, legal and illegal. But again this market is not for U.S. workers.

Some of the urban jobs not currently desired by U.S. workers would be attractive to them, however, if wages and working conditions were not depressed by large numbers of illegals. The econometric literature suggests that wage depression caused by illegals can be sizable. For instance, more American workers would be interested in jobs in farming, textiles, general labor, cooks, and food preparation (now among the lowest paying jobs) if wages were higher due to a smaller labor supply. The argument that there are in fact “jobs Americans won’t take”—at least at the going wage—is often made as if these jobs should be filled. This argument does an injustice to American labor. Only the cynical can believe that the nation benefits if low-end wages are systematically pushed down toward subsistence levels. It should be the object of policy to help assure that, even at the low-wage end, an honest day’s work brings a decent living. Immigration policies that deliberately drive wages down toward desperate levels for the temporary benefit of employers and consumers are in fact class behavior with ominous long term implications for American society. (Vernon Briggs has addressed this point with eloquence in an earlier NPG FORUM essay.)

The Advantages of Hiring Illegal Aliens

Why is it that so many unemployed U.S. workers who want to work at a wage comparable to that paid to illegal aliens in metropolitan areas have difficulty finding jobs in the same labor market?

During the severe economic recessions of 1983 and 1985, our field studies followed unemployed American workers in their frustrating search for jobs in the Houston job market where, all the while, undocumented workers were continuously hired at above the minimum wage. We concluded that employers find it advantageous to hire illegal aliens in common labor and some semi-skilled jobs. First, illegal aliens will often work harder under more difficult conditions than will U.S. workers. Second, entry-level illegal workers are often paid less than the prevailing wage in an industry, and always less than the union wage. Third, and most significant, according to our research findings, the employer has a “net advantage” in hiring an illegal even if he pays them the equivalent of the prevailing wage. How so?

As surveys have shown, between one quarter to half of the employers, contractors, and subcontractors who employ illegals do not deduct any taxes from the workers’ gross pay. A Texas survey done for Governor William Clements in 1982 showed that an estimated forty to fifty percent of the illegals interviewed did not have income tax and FICA taxes withheld from their pay. This survey was done in several Texas cities including Houston, Dallas, and San Antonio. A total of 1,526 aliens were interviewed. Nearly all were apprehended aliens.

Our own three Houston metroplex surveys support the findings of the statewide survey and yield additional corroboration because we had in-depth interviews with over four hundred undocumented workers, only one hundred of whom had been apprehended by the Immigration Service.

Significantly, we found that illegal aliens commonly receive a tax-free wage that is around twenty to thirty percent less than the going wage in a given occupation. Yet this wage, with no tax deductions, is roughly equal to the net after-tax wage paid U.S. workers for the same job. What matters to the illegal worker is his take-home pay, not his gross pay. So to an employer the illegal will be “cheaper to hire.” Moreover, we have found that employers gain further excess profits from this arrangement. In the same instances that illegals pay no withholding or FICA, neither does the employer pay any FICA and payroll taxes. So the employer saves another seventeen percent of the illegals’ wage.

Aside from the under-the-table cash payments, employers and undocumented workers, in collusion with one another, use at least three cover-ups for dodging tax payments. First, and most commonly, the illegal is paid as a casual laborer. Under IRS rules one may work temporarily for up to thirty days with no withholding or income or FICA taxes. Many illegals in Texas work continuously for the same employer under this rule.

Second, there is the independent contractor ruse. By treating illegals as independent contractors, who are themselves respon-
sible for payment of all taxes, the employer avoids payment of FICA and Workmen’s Compensation. In Houston, and in other metropolitan areas such as Los Angeles, Denver, and Miami, this ruse is much used in subcontracting construction jobs, cable TV installation, landscaping, and the service trades.

Third, an undocumented worker who has taxes deducted from his wages may, and commonly does, declare a large number of dependents so as to minimize withholding taxes, often with the assistance of the employer. The family of the “undocumented taxpayer” may be fictitious or it may reside abroad, and it often includes extended-family members. Our 1985 field study indicated that illegal workers in the Houston metropolex paid only about three percent of their gross wages into withholding taxes, as compared to a legally required amount of about 12 percent. Since we found that only ten percent of the illegals ever filed their income tax returns at the end of the year, those owing the federal government never paid their bills.

Many of the Third World immigrants find entry-level jobs in the underground economy. A work week for illegals in outdoor jobs, service jobs, and in common-labor assembly plants is frequently between fifty and sixty hours per week at straight-time wages. Moreover, not even half of the illegals injured on the job in this sector are covered by medical insurance or Workmen’s Compensation. If injured, they are immediately replaced by reserves of illegal aliens on call locally and in the home country. They are tractable because employees may turn them into the INS, often without paying them for their last week’s work.

It needs to be emphasized that businessmen who are trying to gain a competitive advantage from hiring and exploiting illegal aliens have a constant thirst for newly arriving illegals rather than the older, more experienced illegals who have gained job experience after living in the U.S. for some years. This is because more experienced illegals have learned the ropes and have left the poorer jobs for better ones paying higher wages which often also include social security payments and other fringe benefits. We found this to be the pattern in our 1985 and 1989-90 field surveys.

**Network Recruiting**

New infusions of illegals are facilitated by the network recruitment which links “coyotes,” U.S. jobs, and Mexican villages. Professor Phillip Martin was able to show that the Southern California lemon industry not only brought in new illegals via the network, but that the network also systematically excluded American workers.9 We verified this phenomenon in our 1985 survey when we attempted to place Houston unemployed with employers who depended upon the network to supply new workers. We also found, as did Martin, that although some networks continue to link villages with farm jobs, the transition time can be quite rapid from entry-level, low-paying jobs to higher paying semi-skilled jobs. The illegals in the survey averaged just over twenty-seven years of age and had seven years of schooling. They had progressed from an initial average wage of $3.79 per hour to $5.13 per hour in an average of just 4.3 years despite the onset in 1982 of a severe recession in Houston. Comparatively, the average wage of the U.S. worker rose by only half as much and the Houston legal alien worker by one quarter as much.

**The Shape of the Future**

The growth of the working age population in Mexico, Central and South America in the next three decades will dwarf that of the United States, as Lindsey Grant documented in a recent NPG FORUM essay.9 There is no prospect that all of these people will find jobs at home. Many of them will seek to come to the United States, as a matter of survival, and the problems of competition with unskilled American and legal resident labor will intensify rather than fading away.

As we have seen, the process of job displacement and wage depression is more intense when studied on the ground than the econometricians’ models would suggest. Econometric models have consistently underestimated job displacement and wage depression for reasons pointed out in my earlier NPG FORUM essay. In actuality, after a lull in illegal immigration brought about by the 1986 Immigration Reform and Control Act, both illegal and legal immigration are on the rise. More legal immigration due to the 1990 Immigration Reform Act means higher displacement and wage depression for America’s unskilled workers. Perhaps more ominously, the rising tide of illegal aliens means that the underground economy will thrive and also threaten to bring about fundamental changes in the character of the U.S. labor market. California, the immigrant state, where the term Third World is increasingly used to describe the population, labor and cities, may be a harbinger of what is to come unless immigration is brought under control and then articulated to U.S. labor needs.

**NOTES**


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