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Immigrants and American Wages

Americans Face Less Competition for Jobs Since 1980

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EXECUTIVE SUMMARY

Many opponents of legal immigration argue that median income for men has stagnated since the 1970s because so many new workers are competing for jobs. Relative to the size of America's workforce, however, fewer new workers—immigrants and natives—sought work in the United States since 1980. If Americans faced less competition for jobs from new job seekers, blame for lower incomes must lie elsewhere.

Immigration critics claim that wages cannot grow if the labor force is allowed to expand quickly. But history refutes this claim. From 1948 to 1980, the labor force grew by 76 percent, and median income for wage and salary workers shot up by over 80 percent for both men and women. In the following 33 years, the labor force grew just 43 percent—almost half the earlier amount—yet median income rose only 8 percent for men and 55 percent for women. Since new job-seeking has declined since 1980, new job seekers—foreign and domestic—cannot explain income stagnation.

The argument that immigrants hurt the middle class is as wrong in fact as it is in theory. Foreign workers complement American workers and help to raise wages. Even economists who are critical of certain types of immigration agree with the mainstream view that immigrants increase wages for Americans overall. Worse still, this faulty argument is a distraction from real impediments to income growth. Congress should reform the immigration system and focus on governmental barriers to prosperity.

INCOME STAGNATION'S SUPPOSED LINK TO IMMIGRATION

Immigration's impact on wages has long been debated, but sluggish growth for median income workers in the United States has made the issue more relevant than ever. Since 1980, median income for male wage and salary workers has remained largely unchanged. With the health of the economy currently in doubt, many Americans may reasonably ask what role the significant growth in the immigrant population over the last few decades has played in these conditions.

Economists have analyzed the purported income stagnation in various ways. Many argue that the income statistic is not significant after factoring in workers' other benefits and lower prices for goods and services.[1] Others argue that it is misleading. Median income could decrease simply by adding a new worker who earned less than the median to the workforce, just as a new baby lowers the median height of a family.[2] The flat median income trend does not imply that most actual workers have not received a raise in 30 years.

As economists continue to debate the significance of the income statistic, legal immigration opponents claim to have found the culprit. "What has happened to the labor market since 1980?" Senator Jeff Sessions (R-AL) asked in a December 2014 speech on the Senate floor. "From 1980 through 2013, the immigrant population tripled from 14 million to more than 41 million. The sustained flow of legal immigration… has placed substantial downward pressure on wages."[3]

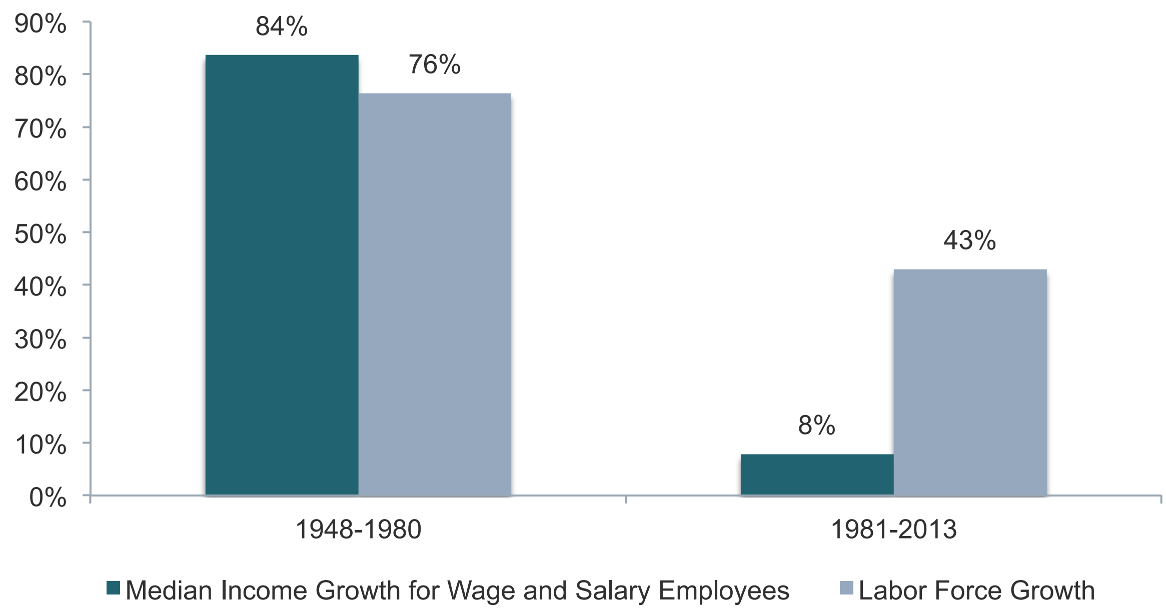
In recent congressional testimony, Frank Morris of Progressives for Immigration Reform stated that there is "a correlation of higher immigration with low wages…wages for the median family have not increased in real terms in more than 40 years."[4] The claim is that income has stagnated because more people are searching for a fixed number of jobs. Putting aside other explanations for the income statistic, the first question should be whether it is true that Americans have faced more competition for jobs since 1980 than in earlier decades.

FEWER NEW WORKERS

These two data points—the immigrant population and income—provide a convenient narrative for opponents of legal immigration. But a single-minded focus on immigrants misses the bigger picture of the labor market. Competition for jobs comes from both native-born Americans and immigrants. Ignoring new native workers misses the largest contributor to the labor force in the United States.

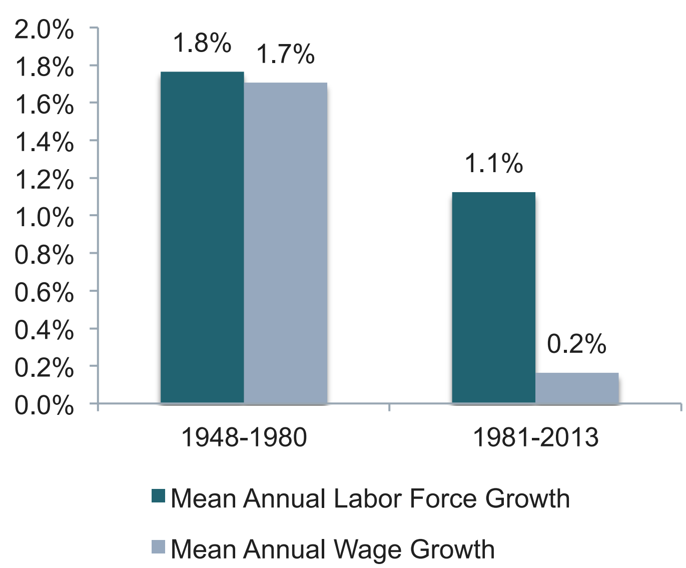
Data from the Bureau of Labor Statistics on the size of the workforce reveal that Americans have faced less active competition for jobs from new job seekers in recent years.[5] From 1948 to 1980, the civilian labor force grew from 59 million to nearly 107 million workers, a 76 percent increase.[6] At the same time, the real median income for individual male wage and salary workers grew from $21,201 to $37,927, an 84 percent increase.[7] From 1981 to 2013, real median income only rose from $37,358 to $40,298, just 8 percent. Increased competition for jobs, however, was not to blame. Over that period, the labor force grew just 43 percent, almost half the earlier rate.

Chart 1: Labor Force and Male Income Growth



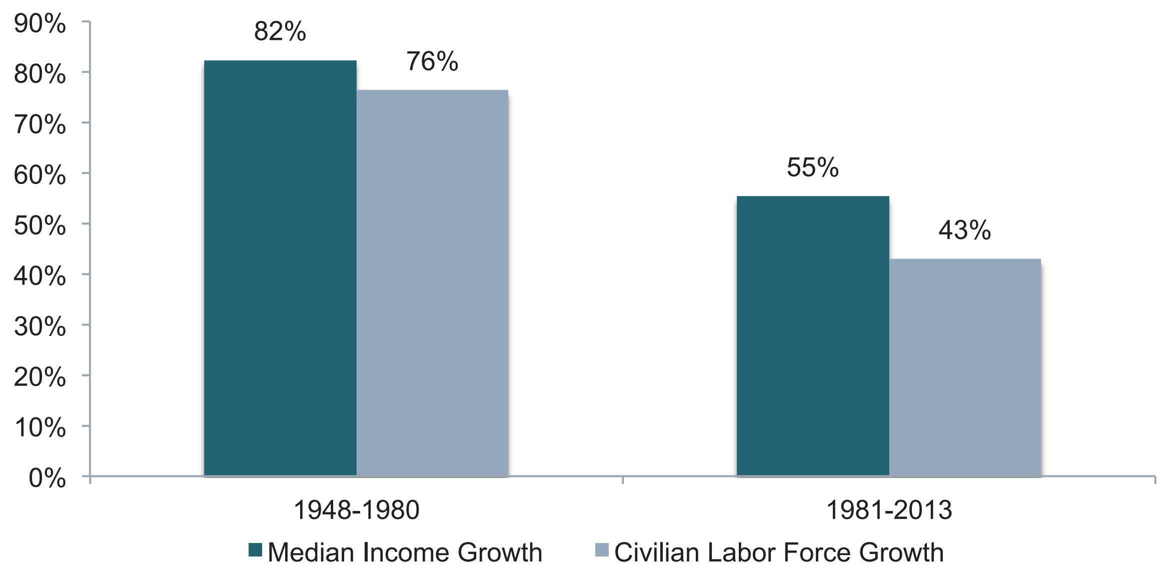
Another way to look at the information is the annual rate of growth over the two periods. During the 33 years before 1980, male median income for wage and salary workers grew at an average annual rate of 1.7 percent. The total civilian labor force grew at a similar rate of 1.8 percent. During the 33 years from 1981 to 2013, however, the average annual labor force growth rate fell to 1.1 percent, a 35 percent decline, yet median income slowed to a weak 0.2 percent increase per year. A large increase in new workers did not drive incomes down, and fewer new workers did not lead to faster income growth.

Chart 2: Labor Force and Annual Male Income Growth



A similar, though less dramatic, story can be told about median income for women. From 1948 to 1980, median income for female wage and salary workers grew by 82 percent despite rapid labor force growth. Over the next 33 years, median income for women continued to grow but at the slower rate of 55 percent, while the overall labor force rose just 43 percent.[8]

Chart 3: Labor Force and Female Income Growth

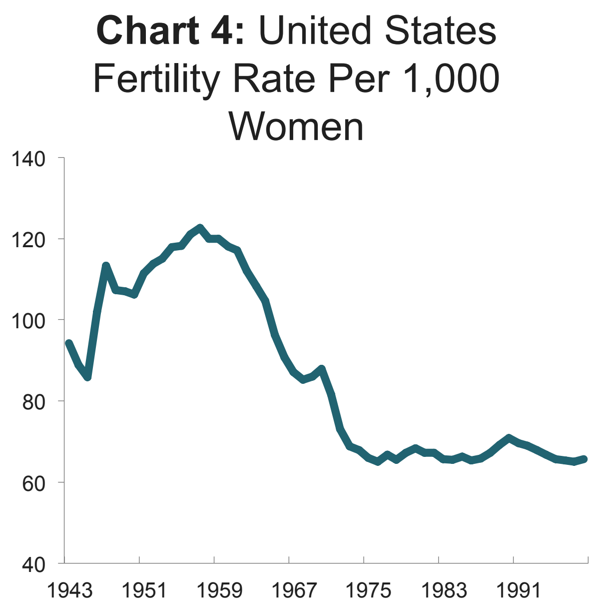


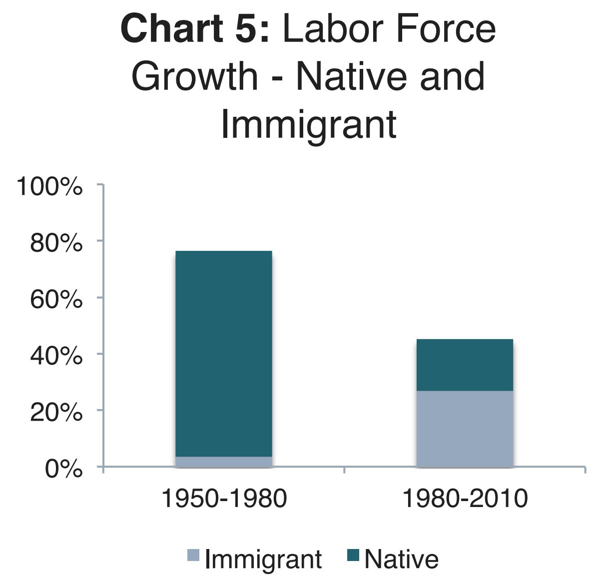
With new workers joining the workforce at a slower pace recently than in prior decades, the hypothesis that increased competition for jobs from new workers caused median income stagnation is refuted.

EXPLANATIONS FOR LABOR FORCE GROWTH

Immigration critics could respond to these facts by asserting that the lower labor force growth is due to Americans leaving the labor force and being replaced by immigrants. Indeed, anti-immigration groups have repeatedly tied the drop in the labor force participation rate since 2007 directly to immigration.[9] But the reality is that lower workforce growth since 1980 has nothing to do with Americans leaving the workforce.

Labor force growth has not gone down due to immigrants taking jobs from Americans. Although the labor force participation rate for American workers has fallen in recent years, it remained almost constant over the last three decades. The native-born labor force participation rate was about 64 percent in both 1981 and in 2010.[10]





In fact, the cause of the higher labor force growth from 1948 to 1980 was a higher birth rate. Since the 1960s, as the baby boomers entered the workforce, birth rates have declined dramatically, which resulted in fewer new American workers entering the workforce after 1980. Chart 4 shows the fertility rate per 1,000 women between the ages of 15 to 44. The rate dropped from a high of 122.7 in 1957 to 87.2 a decade later. After another decade, it had dropped yet again to 66.8. An additional factor was the 18 percent increase in the number of working women over that period. From 1980 to 2010, the percentage of working women again increased but by only 11 percent.[11]

The result of these two factors is that the origin of labor force growth has shifted dramatically. Foreign-born workers accounted for just 4.8 percent of the increase in the workforce from 1950 to 1980. Since then, they have played a much larger role. From 1980 to 2010, 28.8 million new foreign workers entered the workforce, accounting for almost 60 percent of the increase in the labor force.[12] At the same time, the native-born workforce increased just 18 percent.

New foreign workers since 1980 account for only a portion of the labor force growth that was previously attributable to native-born workers. The influx has not come close to recovering the earlier growth rate, and even if it did, there is no evidence that would indicate a negative impact on overall wages or income.

ECONOMISTS AGREE

The consensus among economists is unambiguous: immigrants have not caused a decline in income growth. The skills of immigrants, immigration economists point out, complement the skills of native-born workers. More construction workers increase demand for civil engineers, for example, which raises wages for those engineers. It works the other way as well. Civil engineers increase demand for construction workers, which raises wages at the low end.[13]

A healthy debate exists over the effect of lesser-skilled immigration on lesser-skilled native workers, but the effects of immigration overall are positive, even according to estimates from economists who are most critical of lesser-skilled migration. Economist George Borjas of Harvard University, whose work is often cited by opponents of immigration, agrees with the mainstream view that immigration has small but positive effects on the middle incomes of Americans.

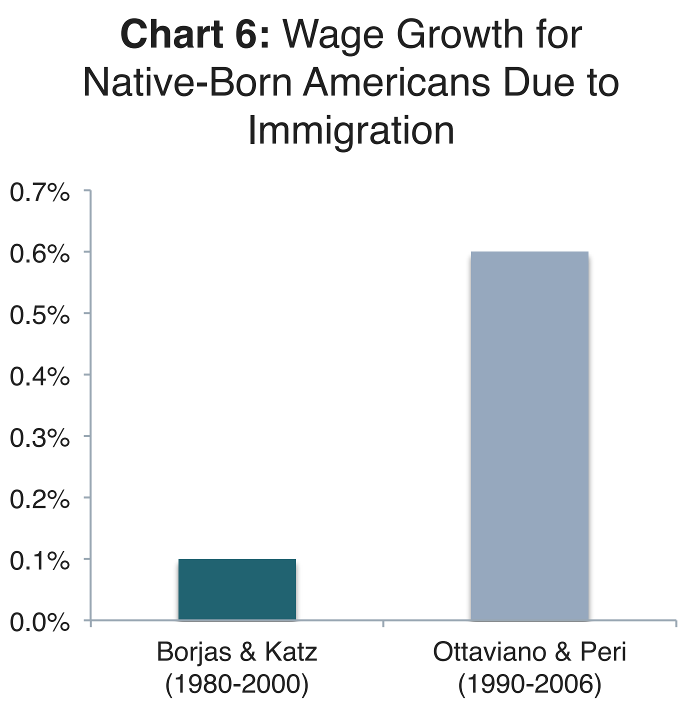


Chart 6 compares the low-end estimates of Borjas and Lawrence Katz with the more high-end estimates of Gianmarco Ottaviano of the London School of Economics and Giovanni Peri of the University of California at Davis, two economists who are often cited by immigration proponents. Borjas and Katz estimate that when capital adjusts to inflows, immigrants increased wages for native-born Americans by about 0.1 percent from 1980 to 2000,[14] while Ottaviano and Peri estimate growth of 0.6 percent from 1990 to 2006.[15]

The economic literature, from the most optimistic economist to the least, provides no support for the hypothesis that the income stagnation for median earners since 1980 was caused by new immigrants. In a survey of the most recent studies on the effect of immigration on wages, William Kerr of Harvard University and Sari Pekkala Kerr of Wellesley College found that “the large majority of studies suggest that immigration does not exert significant effects on native labor market outcomes.”[16]

The small positive impact of immigration on native-born Americans can be seen in the reverse as well. When immigrants are removed or prevented from entering the United States, the income of the average American is negatively impacted. In 2012, a team of economists from the United States Department of Agriculture estimated the effect on domestic incomes of a policy that would even more greatly restrict lesser-skilled immigration than current policy already does.

This hypothetical policy would remove 2.1 million workers and prevent the entry of another 1.9 million workers over 5 years and, over 15 years, remove or prevent the entry of 5.8 million workers. Using a computable general equilibrium model, they found that the policy would lower average incomes for domestic workers between 0.9 percent and 1.1 percent in annual income after 15 years compared to the baseline immigration policy, which projected a steady increase in the number of immigrants.[17]

Chart 7: Projected Income for Americans Under Differing Immigration Policies

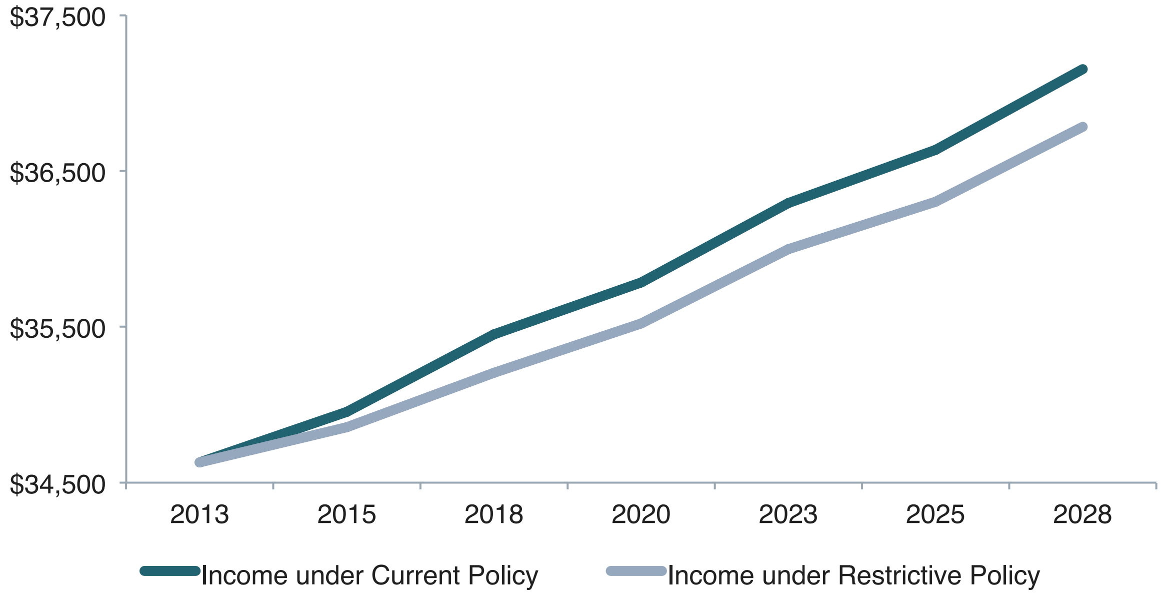


Chart 7 plots the projected rise in income for the median United States wage or salary worker under current policy and the rise under a restrictive policy.[18] As immigrants are driven out, the rise in income of the American worker slows. The difference between incomes under the current policy and under the restrictive policy widens throughout the period as fewer immigrants are allowed to enter. The report explains why wages would fall for American workers under the restrictive policy:

- "The economy-wide labor supply was reduced, leading to a decrease in the long run level of production. Lower output reduced incomes to many other complementary factors of production, including capital, land, and U.S.-born and foreign-born, permanent resident workers in higher paying occupations…"
- "The decreased unauthorized labor supply scenario also affected the occupational distribution of U.S.-born and foreign-born permanent resident workers, which shifted toward more hired farm work and other lower-paying occupations."

While the authors assumed that the workers forced out of the labor pool or prevented from coming to the United States under a restrictive policy would be illegal aliens, they could just as easily be lesser-skilled legal workers: guest workers or lawful permanent residents. In fact, legalizing the flow of immigrants would actually increase their wages and consumption, which would drive wages higher still.[19]

CONCLUSION

America has effectively tested the policy recommendation of the immigration critics. The country has lowered its labor force growth, but has seen income growth lowered as well. Instead of fearing new workers, America should look back to the earlier period that saw higher incomes, and embrace more contributors to its economy.

Rather than harm U.S. workers, immigrants complement their skills, creating demand for more jobs in areas in which Americans specialize. For this reason, economists agree that immigrants have increased wages for American workers since 1980. In fact, a more restrictive immigration policy would lower wages for most Americans. Conversely, a more expansive legal immigration policy would further increase economic growth, benefit domestic workers, and prevent future illegal immigration.

Opponents of legal immigration have misdiagnosed the true causes of economic distress in the United States. Congress is right to focus on the plight of America's middle class, but the evidence suggests that all American workers would benefit from making legal immigration easier, not harder.

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