

The Effects of Immigration on Employment and Wages in the United States

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Abstract

This literature review aims to explore the impacts of globalization on the labor market within the boundaries of the United States (U.S.). It will examine how globalization, specifically in the form of immigration, affects employment rates, job opportunities, and wages in the U.S. By reviewing existing literature, this project seeks to understand the influence that immigration has on the U.S. labor market. The goal is to identify key patterns and insights, shedding light on how globalization, through immigration, interacts with the economic environment of the U.S. to shape employment and wage dynamics. This analysis will contribute to a deeper understanding of the complex interplay between immigration and employment within the U.S., offering valuable perspectives for policymakers in the field.

Methodology

Google Scholar and the Irvine Valley College Library Archive were utilized to find articles. Some key search terms included various immigration terminologies (e.g. foreigner, undocumented immigrant, skilled/unskilled worker) as well as labor market components, specifically employment and wages. Peer-reviewed academic articles as well as government sites were utilized throughout the paper. The research included in this paper was largely focused on immigration and its impacts on the labor market. Specific sources were chosen for the sake of targeting multiple angles and arguments regarding the topic. In this paper, the angles that were discussed were defined as positive, neutral, and adverse effects of immigration. Research focused on other factors within the labor market other than wages and employment rates were not included as well as components in globalization other than immigration.

1. Introduction

1.1 Background

Immigration is more prominent than ever. As of 2020, there are an estimated 281 million people globally living in a country other than their own, which is 128 million more people than in 1990 (International Organization for Migrants, 2022). People immigrate for a variety of reasons, mostly in search of economic and job opportunities or as a result of the local, social, or political environment in their home countries (Global Refugee Staff, 2021).

The U.S. has proven to be a popular destination for immigrants, with the U.S. having more international migrants than any other country with a staggering

50.6 million international migrants residing within it (Natarajan et al., 2022). This trend shows no sign of slowing down, with the Congressional Budget Office having estimated that 3.3 million immigrants on the net arrived in the U.S. between 2023 and 2024 (Duzhak, 2024).

The labor market impacts immigration inflows and vice versa, which will be further explored in the paper.

Globally, the U.S. has the third highest workforce at roughly 171 million workers since 2023, falling short of India and China. Despite this, the U.S. has a lower unemployment rate of 3.4% relative to India's 4.2% and China's 4.7% (Central Intelligence Agency, 2023). The U.S. also holds a relatively low job gap rate, following the positive correlation between income level and job gap rates trend observed (International Labor Organization, 2023).

Although many arguments regarding the adverse effects of immigration were prominent such as increased competition among locals, research highlights the benefits that come from immigration as well (Friedberg and Hunt, 1995). This paper will review all arguments and will argue regarding the impacts of immigration on the labor market. By better understanding immigration and its effects on the U.S. labor market, policymakers can better target specific issues within the realm of immigration and sustain the already existing benefits that immigration brings.

1.2 Theoretical Predictions

As previously mentioned, immigration is seen to have various impacts on natives within the labor market. Theoretical predictions can be made based on various models regarding the effects of immigration on the labor market. Liu and Edwards discuss basic economic theory, which states that a surge in immigration could depress wages for natives and increase unemployment (Liu, Edwards, 2018).

Friedberg and Hunt describe a model revolving around economies that are closed and open to international trade. Within closed economies, immigrants are predicted to lower the price of factors (wages) that they are perfect substitutes with, raise the price of factors they are perfect complements with, and have an ambiguous effect on factors with which they are imperfect substitutes. In other words, in a closed trade economy, immigration directly impacts wages. In an open trade economy, the results are vastly different. The Heckscher-Ohlin model is only used to represent open trade economies, suggesting that price equalization occurs among internationally open economies. As a result, wages and employment are not directly impacted by immigration in these economies, as the economy mainly adjusts through trade. It is important to note, however, that in open economies that are labor-heavy, such as mass product manufacturing, a large influx of immigration can possibly lower wages similar to closed economies; smaller waves have a negligible impact (Friedberg and Hunt, 1995).

From another angle, Borjas and team examined the theoretical effect of immigration by considering the distribution of skills. If the distribution of the skills of immigrants were similar to the native population, there would not be much impact on the general structure of wages. However, if the immigrants were less skilled than the natives, the distribution of income would shift towards the more skilled, and conversely if otherwise (Borjas et al., 2004.).

While these theoretical models can be applied to most countries and economies, each has their nuances and contributing factors. Targeting one specific geographical location can be desirable, as it allows researchers to add further depth and provide a more detailed and accurate picture. In this paper, we will focus on the U.S. labor market as a concrete example that can allow us to explore our research question thoroughly.

1.3 Adverse Observed Impacts of Immigration in the U.S Labor Market A large majority of theoretical models regarding immigration's impacts suggest that it has harmful effects on the native population, with ample literature analyzing empirical evidence to support it.

As mentioned in Borjas' model, research suggests that immigration's impacts are relative to skill level and education. Many foreign workers in the U.S. fall into the category of low-skilled, as the majority of immigrants typically opt for low-paying and dangerous jobs that require less training and education

(Lopez, 2020). Indeed, the literature reveals that “Immigration has had a marked adverse impact on the economic status of the least skilled U.S. workers (high school dropouts and those in the bottom 20 percent of the wage distribution)” (Borjas et al., 2004). This is further backed in the New York Times article, “Do Illegal Immigrants Actually Hurt the U.S. Economy?”, which states that labor economists have concluded that illegal workers have lowered the wages of U.S workers without a high school diploma by 0.4 to 7.4 percent (Davidson, 2013).

Employers are seen to favor hiring immigrants over natives for a variety of reasons. One particular reason is that foreign-born immigrants are typically more willing to work for smaller wages which can be seen in this statistic: “In 2023, median usual weekly earnings of foreign-born full-time wage and salary workers (\$987) were 86.6 percent of the earnings of their native-born counterparts (\$1,140)” (U.S Bureau of Labor Statistics, 2024). Additionally, immigrant workers are seen to be more willing to work more dangerous jobs as well. When comparing immigrant to native fatality rates, immigrants were seen to have an “excess mortality of 358 immigrants per year compared with the number of deaths if immigrants had the same distribution across industries as natives” (Orrenius et al., 2009). Considering all these factors, employers are ultimately more inclined to hire foreign workers over native ones, which results in the increased unemployment of native workers within low-skilled sectors.

1.4 Neutral Observed Impacts of Immigration in the U.S Labor Market Contrary to many theoretical models, current literature reveals empirical evidence that suggests that immigration may be neutral in terms of wages in the U.S. labor market. In reality, "The economic impact of immigration is mainly redistributive and primarily affects a small group of the least educated U.S. native workers" (Borjas et al., 2004), indicating that immigration generally has little to no adverse effects on skilled workers. Additionally, research confirms that highly skilled workers are essentially unaffected by immigration. When immigrants lower the wages of low-skilled natives, employers receive more money, which they either invest in higher-skilled workers or keep for profit. While this is negative for low-skilled immigrants and natives, from the perspective of higher-skilled workers and employers, it can be seen as positive or neutral. Such influxes of immigration, however, have a rather modest impact on these higher-skilled natives due to the extremely small wages that low-skilled workers make. Even a significant transfer of money from the wages of low-skilled workers would be negligible due to the extremely low wages that they receive in the first place (Camarota, 2009).

1.5 Positive Observed Impacts of Immigration in the U.S Labor Market In a general context, immigration is seen to have a positive impact on overall unemployment rates. When comparing employment rate trends of native workers and foreign-born shares in the labor force in 2005 and 2016, employment rates for native workers increased in the presence of more immigrants (Liu, Edwards, 2018). Liu and Edwards attribute this to the complementarity between foreign immigrants and natives, specifically natives with higher education backgrounds. While there were statistically significant positive results regarding employment for natives with a college degree, the results were null in the context of natives with a high school diploma or less, suggesting that the trend was not uniformly dispersed throughout all education levels (Liu, Edwards, 2018). This further establishes that immigration may impact high-skilled and low-skilled workers differently in terms of employment and that the economy benefits overall from immigration.

1.6 Overview

Looking at the literature reviewed regarding immigration’s impacts on the U.S. labor market, there was a general consensus that immigration had a negative impact on native workers in terms of wages. However,

immigration was seen to have neutral impacts on highly skilled workers and a positive impact on the overall unemployment rates of the U.S. economy. This should be taken into account when addressing immigration policies in the U.S.

2. Analysis/Discussion

2.1 Considering next steps for immigration policy

Considering the various impacts that immigration has on the U.S. labor market, there are various recommendations, specifically for people who can make a systemic impact such as policymakers. When discussing theoretical models regarding immigration's impact on the U.S. labor market, most models described immigration in a negative light when it came to native employment and wages. However, a discussion of empirical sources revealed that the results were mixed, with the impacts of immigration being different throughout various categories. As a result, the question regarding immigration's impact on the natives is not only a theoretical one but also an empirical one (Liu, Edwards, 2018).

Upon further inspection of empirical research, there were important pieces of information that revealed some patterns. One thing that is notable to mention is that most empirical research that viewed immigration in a negative light considered the impacts of low-skilled immigrants on low-skilled natives, which significantly skewed the perception of results. While both theoretical and empirical evidence point towards the same conclusion, theoretical models highlight the negative impacts of immigration on low-skilled workers, while empirical models place a heavier emphasis on the neutral and possible benefits to high-skilled workers, employers, and the overall economy. Thus, while immigration can be beneficial to the U.S. labor market, it must be integrated in a way that does not come at the cost of low-skilled native and immigrant workers through policies, ultimately balancing the negative impacts.

2.2 Possible recommendations

Protecting low-skilled natives and immigrants can be a possible goal in effectively integrating immigration into the U.S. labor market. By considering the effects of immigration on wages and employment, policymakers have various potential options.

As previously mentioned, considering that immigrants increase competition by being willing to work for less (U.S. Bureau of Labor Statistics), creating policies that enforce that employers are maintaining wages fairly can aid in reducing this. One such policy could be to establish a higher minimum wage requirement (Camarota, 2009). This policy can ensure that natives have a fair chance at employment by decreasing competition, as it levels the field for all workers and decreases the chance of employers choosing immigrants over natives simply for their wages. Immigrants also largely benefitted from these policies as they prevented employers from exploiting their vulnerable state by abusing wages, ultimately creating a fairer wage system. Implementation of such policies should take into account that the increase in minimum wages can possibly increase unemployment levels in lower-skilled sectors. Another consideration is the debatable topic regarding the idea of what a "fair" wage is considering the impacts and implications that raising or lowering the minimum wage holds. Both of these are possible implications to consider in this recommendation and can be further investigated in future studies.

Policymakers should also consider creating opportunities and programs for low-skilled immigrants and their families and future generations in an effort to create an impact in the long term. With so many low-skilled immigrants entering the U.S. (Lopez, 2020), the unemployment rate is bound to increase in low-skilled sectors. One way to properly address this issue can be to break the pattern of low-skilled jobs in immigrant families. U.S. immigrants, particularly Mexicans, Haitians, Laotians, Nicaraguans, and

Cambodians, are often seen growing up with low-skilled parents, which results in unsustainable training and resources to achieve a higher-level job (Ray, 2002). This lack of resources can lead to future immigrant families being stuck in a low-wage cycle, contributing to competition in low-skilled sectors. Policymakers can find ways to create a more inclusive and equitable environment, providing better social and economic mobility among immigrants through programs and training opportunities. Government-backed training for essential skills through the means of initiatives such as language assistance programs or basic workforce training programs can possibly increase the chances of immigrants moving to higher-skilled sectors. Vocational assistance programs such as opportunities to learn trade skills can also boost immigrant families and decrease oversaturation in low-skilled job sectors. This is by no means a complete list of possible options, and further analysis can be performed in terms of what training and skills yield the best results when addressing employment rates. Nevertheless, encouraging immigrants to move to higher-skilled occupations, can lessen the strain on lower-skilled jobs' unemployment rates both from the perspectives of immigrants and natives.

2.3 Limitations and Potential Topics for Future Studies

The conclusions of this paper are limited to the sources that were consulted, and the search terms that were used to locate sources as further explained in the methodology section. Additionally, it is geographically limited to the U.S., as it provides details regarding the impact of immigration on the labor market within such economic contexts. Thus, a broader perspective of immigration's impact on the global labor market is not achieved. Future research can discuss the relationship between the factors discussed in this paper within different economic and regional settings, comparing and contrasting the impacts that immigration has on the labor market within these conditions.

Moreover, achieving a concrete and definitive answer regarding the impact of immigration on the U.S. labor market is extremely difficult due to the possible interference of other factors within the economy. The health of the economy can significantly impact the labor market, with events such as recessions and time periods possibly altering the wage and unemployment rates. Additionally, factors like the specific type of industry and age group can yield different results from one another regarding how their wages and unemployment are impacted by immigration. Each of these components can be a possible future lens that can be used to contribute to a deeper understanding of the topic of this paper.

Immigration should be a part of a broader discussion and not limited to the realm of economics, and certainly not the narrow scope of wages and unemployment (Murray et al., 2006); political and societal factors are also relevant when looking at ways a country implements immigration policies. Future studies can illustrate how other components regarding the impact of immigration such as cultural or social perspectives should be taken into account when discussing immigration policies on a country level.

3. Conclusion

The main purpose of this literature review was to discuss the effects that immigration had on the U.S. labor market. Overall, immigration was seen impacting low-skilled natives in the U.S. the most by decreasing wages and increasing unemployment in low-skilled sectors. On the other hand, immigration was observed to have neutral to positive effects on wages and employment rates of highly skilled workers. Immigration was observed to have an overall positive impact on the unemployment rate of the U.S. as a whole.

After reviewing previous literature, several possible recommendations that prioritized the well-being of both immigrants and natives were suggested for policymakers to consider. It was discussed that implementing an increase in the minimum wage could possibly decrease competition for natives while

taking into consideration the potential consequence of increasing unemployment from such a course of action. It was also discussed that policymakers could potentially create more opportunities through programs and provide training to sharpen the skills of immigrants in hopes of them working in higher-skill jobs, decreasing the competition in low-skilled sectors, as well as breaking the low-skill job cycle that is happening in most immigrant homes.

Exploring the implications of immigration on the labor market, specifically wages and employment, sheds further light on the bigger issue of immigrant policy implementation. While this paper focused solely on its impact on wages and employment, future studies can expand their perspective and explore other factors such as age, industry type, and various other economic contexts to create a more holistic picture in hopes of being able to better implement immigration policies.

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