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Immigration

George J. Borjas*

About 140 million persons—roughly 2 percent of the world's population—live in a country where they were not born. Nearly 6 percent of Austria's population, 17 percent of Canada's, 11 percent of France's, and 17 percent of Switzerland's is foreign-born. The number of immigrants in the United States increased from 10 million to 26 million between 1970 and 1998, raising their share of the population from 5 to 10 percent during that period.

This resurgence in immigration has rekindled interest in the subject of the economics of immigration. Perhaps the key theme of the literature is that an assessment of the economic impact of immigration requires an understanding of the factors that motivate persons in the source countries to emigrate and of the economic consequences of pursuing particular immigration policies.¹ The most important lesson of the research is that the economic impact of immigration will vary by time and place, and that immigration can be either beneficial or harmful.

Trends in Immigrant Skills

Economic theory implies that the labor market impact of immigration depends on how the skills of immigrants compare with those of native-born citizens in the host country.² In fact, much of the research on immigration has sought to understand what determines the relative skills of the immigrant flow and to measure

the relative skills of immigrants in the host country.

In 1960, the average immigrant man living in the United States earned about 4 percent more than the average native-born man. By 1998, the average immigrant earned about 23 percent less. The worsening economic performance of immigrants can be attributed partly to a decline in their relative skills across successive waves.³ At the time of entry, the newest immigrants in 1960 earned 13 percent less than native-born citizens; by 1998, the newest immigrants earned 34 percent less.

History suggests that economic assimilation—the acquisition of skills, such as English-language proficiency, that American employers value—narrows the wage gap between immigrants and native-born citizens by about 10 percentage points in the first two decades after arrival.⁴ Immigrants who entered the United States after 1980 had a 25 percent wage disadvantage at the time of entry. If these recent arrivals experience the same rate of economic assimilation as earlier waves, the wage gap between recent immigrants and native-born citizens will remain at about 15 percentage points throughout much of the immigrants' working lives. In other words, the most recent immigrant waves will probably suffer a substantial economic disadvantage for decades to come.

Economic performance differs significantly according to the immigrant group's country of origin, though.⁵ Immigrants from El Salvador or Mexico earn 40 percent less than native-born workers, while immigrants from Australia or South Africa earn 30 to 40 percent more. To some extent, these differences mirror the dispersion in skills across the populations of the source countries. Immigrants from countries with abundant human capital and higher levels of

per capita income tend to do better in the United States.

During the 1950s, more than two-thirds of the legal immigrants admitted to the United States came from Europe or Canada, 25 percent from Latin America, and only 6 percent from Asia. By the 1980s, only 13 percent of U.S. immigrants came from Europe or Canada, 47 percent from Latin America, and 37 percent from Asia. Given the sizable skill differentials across ethnic groups, it is not surprising that changes in the national origin mix of immigrants can explain the decline in the economic performance of successive immigrant waves.

Economic Consequences of Immigration

Immigrants tend to cluster geographically in a small number of cities and states. In 1998, almost three-quarters of U.S. immigrants lived in only six states: California, New York, Texas, Florida, New Jersey, and Illinois. In contrast, only one-third of native-born citizens lived in those states.

This geographic clustering suggests that one might be able to measure how immigration affects the labor market opportunities of native-born workers by comparing those who reside in immigrant cities (for instance, San Diego) with those who reside in cities where few immigrants live (for example, Pittsburgh). However, the evidence suggests that these "spatial correlations" may be close to zero.⁶

A weak spatial correlation may not indicate that immigrants have little impact on the well-being of native-born workers, though. For example, suppose that immigration into California substantially lowers the earnings of native-born workers there.

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Native-born workers are not likely to stand idly by and watch their economic opportunities evaporate. Many will move from California to other states, and some people who were considering moving to California will now move elsewhere. These native-population flows effectively diffuse the adverse impact of immigration on California's labor market over the entire U.S. economy. Ultimately, *all* native-born workers are worse off because of immigration, not just those who live in the areas where immigrants have clustered.

It appears that the flows of native-born workers within the United States—as well as the flows of U.S. firms looking for cheap labor—indeed have responded to immigration. Because of these responses, the impact of immigration on the labor market must be measured at the *national*, rather than the local, level.⁷

Between 1980 and 1995, immigration increased the number of high school dropouts by 21 percent and the number of persons with at least a high school diploma by only 4 percent. During that time, the wage of high school dropouts relative to that of workers with more schooling fell by 11 percentage points. The disproportionate increase in the number of workers at the bottom end of the skill distribution probably caused a substantial decline in the relative wage of high school dropouts, accounting for perhaps half of the observed drop. Thus, immigration seems to have been an important contributor to the rise in income inequality in the United States, depressing the economic opportunities faced by the least skilled workers.

The fact that some native-born workers lose from immigration implies that U.S. firms gain because they can now hire workers at lower wages. Many native-born consumers also gain because the lower labor costs lead to cheaper goods and services. In fact, the labor market conse-

quences of immigration generate a net benefit for the entire native-born population. The annual net gain from immigration is small (less than 0.1 percent of gross domestic product), amounting to less than \$10 billion a year for the entire native-born population. However, immigration does more than just increase the total income accruing to native-born workers: it also induces a substantial redistribution of wealth away from workers who compete with immigrants and toward employers and other users of immigrant services. These wealth transfers may be in the tens of billions of dollars per year.

What about the controversial link between immigration and the welfare state?⁸ In 1970, immigrants were slightly less likely to receive public assistance than U.S. natives. By 1998, immigrants had a much higher chance of receiving welfare: almost one-quarter of immigrant households were receiving some type of assistance, as compared with 15 percent of native-born households.

Two distinct factors account for the disproportionate increase in welfare use among immigrant households. First, because more recent immigrant waves are relatively less skilled than earlier waves, they are also more likely to use welfare than earlier waves. Further, the welfare use of a specific immigrant wave actually *increases* over time (both in absolute numbers and relative to native-born citizens). It seems that the assimilation process involves learning about not only labor market opportunities but also about the income opportunities provided by the welfare state.

The relatively generous safety net provided by the welfare state also may attract a different—and less skilled—type of immigrant. Generous welfare programs may influence the migration decisions of persons in the source countries, changing the type of person who wishes to emigrate and increasing the cost of main-

taining the welfare state in the host country.

I recently looked at whether welfare programs indeed have influenced the geographic sorting of the immigrant population in the United States. Welfare benefits vary significantly across states, and immigrants—because they are a self-selected group who have chosen to move—may be particularly receptive to those differences.⁹ In 1970, California's Aid to Families with Dependent Children benefits matched those of the median state. By 1990, California's benefits were (with the exception of Alaska) the most generous in the nation. In 1990, California was home to 10 percent of U.S. natives who did not receive public assistance and to 12 percent of those who did. However, among new immigrants, California was home to 29 percent of those who did not receive public assistance and to 45 percent of those who did.

Intergenerational Transmission of Ethnic Skill Differentials

In 1998, 11 percent of the U.S. population was “second-generation”—born in the United States but with at least one foreign-born parent. By the year 2050, the share of second-generation persons will increase to 14 percent, and an additional 9 percent will be the grandchildren of current immigrants. The experience of the children and grandchildren of the Great Migration—the immigrants who entered the country at the beginning of the twentieth century—provides important lessons about the long-run consequences of immigration.¹⁰ That migration introduced substantial ethnic skill differentials into the United States: 97 percent of Irish immigrants knew how to read and write any language, as compared with 80 percent of Greek immigrants and with 45 percent of Mexican immigrants.

These differences helped to determine the skills and economic performance of their children and grandchildren. A 20 percent wage differential between two immigrant groups in 1910 implied a 12 percent wage differential in the second generation and a 5 percent wage differential in the third. In other words, about half of the average skill differential between any two groups in the first generation persists into the second, and half of the differential remaining in the second generation persists into the third.

To explain the intergenerational persistence of ethnic skill differentials, I have proposed that ethnicity has external effects. The characteristics of the ethnic environment, or ethnic capital, influence the skills and economic performance of the children in the ethnic group, above and beyond the influence of the parents.¹¹ These characteristics include the culture, attitudes, and economic opportunities that permeate the ethnic networks.

Exposure to an advantaged ethnic environment—in the sense that the environment has abundant human capital—has a positive influence on the children in the group, while exposure to a disadvantaged environment has a negative one. Ethnic capital leads to a type of stickiness in social mobility, making it difficult for persons in disadvantaged ethnic groups to move up. The skills of the children of immigrants probably are affected not only by the skills of their parents, but also by measures of the group's ethnic capital, such as the mean education or wage of the ethnic group in the parental generation. In fact, the impact of ethnic capital on social mobility may account for half of the intergenerational persistence in ethnic skill differentials.

Residential segregation clearly exists among ethnic groups in the

United States. Persons of Mexican ancestry live near other persons of Mexican ancestry, just as persons of Irish ancestry live near other persons of Irish ancestry. Because few persons in disadvantaged ethnic groups can afford to escape the ethnic ghetto, these enclaves make it easy for ethnic capital to influence the social mobility of the persons who reside in those ghettos, and they help to perpetuate the socio-economic differences observed across ethnic groups from generation to generation.¹²

Conclusion

Immigration has a far-reaching and long-lasting impact. We are only beginning to observe the economic consequences of the historic changes in the size, national origin mix, and skill composition of immigrants admitted to the United States during the past three decades. This "Second" Great Migration surely will alter the skill endowment of the labor force, the employment opportunities of native-born workers, and the costs of social insurance programs not only in our generation but also for our children and grandchildren.

¹ The policy implications are discussed in G. J. Borjas, *Heaven's Door: Immigration Policy and the American Economy*. Princeton, N.J.: Princeton University Press, 1999.

² Borjas, "The Economic Analysis of Immigration," in *Handbook of Labor Economics*, Vol. 3A, O. Ashenfelter and D. Card, eds. Amsterdam: North-Holland, 1999.

³ Borjas, "Assimilation, Changes in Cohort Quality, and the Earnings of Immigrants," *Journal of Labor Economics*, 3, no. 4 (October 1985), pp. 463–89; and "Assimilation and Changes in Cohort Quality Revisited: What Happened to Immigrant Earnings in the 1980s?" *Journal of Labor Economics* (April 1995), pp. 201–45.

⁴ Borjas, "The Economic Progress of Immigrants," NBER Working Paper No. 6506, April 1998, and forthcoming in

Issues in the Economics of Immigration. Borjas, ed. Chicago: University of Chicago Press.

⁵ Borjas, "Self-Selection and the Earnings of Immigrants," *American Economic Review*, 77, no. 4 (September 1987), pp. 531–53; and "National Origin and the Skills of Immigrants in the Postwar Period," in *Immigration and the Work Force: Economic Consequences for the United States and Source Areas*, Borjas and R. B. Freeman, eds. Chicago: University of Chicago Press, 1992.

⁶ Borjas, "The Substitutability of Black, Hispanic, and White Labor," *Economic Inquiry* (January 1983), pp. 93–106; and Borjas, "Immigrants, Minorities, and Labor Market Competition," *Industrial and Labor Relations Review* 40, no. 3 (April 1987), pp. 382–92.

⁷ Borjas, Freeman, and L. F. Katz, "On the Labor Market Effects of Immigration and Trade," in *Immigration and the Work Force*, pp. 213–44; and "How Much Do Immigration and Trade Affect Labor Market Outcomes?" *Brookings Papers on Economic Activity* (1997), pp. 1–67.

⁸ Borjas and Stephen J. Trejo, "Immigrant Participation in the Welfare System," *Industrial and Labor Relations Review* 44, no. 2 (January 1991), pp. 195–211; and Borjas and Lynette Hilton, "Immigration and the Welfare State: Immigrant Participation in Means-Tested Entitlement Programs," *Quarterly Journal of Economics* (May 1996), pp. 575–604.

⁹ Borjas, "Immigration and Welfare Magnets," NBER Working Paper No. 6813, November 1998, and *Journal of Labor Economics* (October 1999).

¹⁰ Borjas, "The Intergenerational Mobility of Immigrants," *Journal of Labor Economics* (January 1993), pp. 113–35; and Borjas, "Long-Run Convergence of Ethnic Skill Differentials: The Children and Grandchildren of the Great Migration," *Industrial and Labor Relations Review* (July 1994), pp. 553–73.

¹¹ Borjas, "Ethnic Capital and Intergenerational Mobility," *Quarterly Journal of Economics* (February 1992), pp. 123–50.

¹² Borjas, "Ethnicity, Neighborhoods, and Human-Capital Externalities," *American Economic Review* (June 1995), pp. 365–90; and "To Ghetto or Not to Ghetto: Ethnicity and Residential Segregation," NBER Working Paper No. 6176, September 1997, and *Journal of Urban Economics* (September 1998), pp. 228–53.