


[Current Issue](#)
[Archives](#)
[About](#)
[Join](#)
[Contact Us](#)
[Submissions](#)

Rethinking The Gains From Immigration: Theory And Evidence From The U.S.

an interview with Economics Professor Giovanni Peri of UC
Davis

By [Jennifer Adkins & Ali Karaoui](#) | UC Davis School of Law

Posted Monday, May 01, 2006

6 U.C. Davis Bus. L.J. 20 (2006)

Professor Giovanni Peri is a Professor of Macroeconomics at the University of California, Davis. Professor Peri earned a B.S. in Economics and Social Sciences and a Doctoral Degree in Economics at Bocconi University, Milano and a Ph.D. in Economics at UC Berkeley. He has received a number of honors and awards including the Jean Monnet Fellowship at the European University Institute (2000) and a Global Fellowship from UCLA's International Institute (2004). An internationally renowned expert on the economic effects of immigration, Professor Peri has contributed to a number of newspaper articles and media productions all over the world.

Professor Peri's recently published and forthcoming works include: "Long-Run Substitutability Between More and Less Educated Workers: Evidence from U.S. States 1950-1990" (with Antonio Ciccone), Review of Economics and Statistics, Vol. 87, Issue 4, pages 652-663, November 2005; "The Economic Value of Cultural Diversity: Evidence from U.S. Cities" (with Gian Marco I.P. Ottaviano), Leading Article, Journal of Economic Geography, Vol. 6, Issue 1, Pages 9-44, January 2006; "Identifying Human Capital Externalities: Theory with Applications" (with Antonio Ciccone). Forthcoming, Review of Economic Studies, 2006; and "The Dynamics of R&D and Innovation in the Short Run and in the Long Run" (with Laura Bottazzi). Forthcoming, Economic Journal, 2006.

Q: Many Americans believe that immigration has a negative impact on U.S. workers. The popular belief is that foreign-born workers compete with native-born U.S. workers for the same jobs, increasing competition in the U.S. labor market. According to traditional labor economic theory, the heightened competition should lower wages and raise unemployment for U.S. workers.

The work of Harvard University Professor George J. Borjas seems to support the immigration fears of the American public. Professor Borjas's 2003 paper, *The Labor Demand Curve Is Downward Sloping: Re-examining the Impact of Immigration on the Labor Market*, found that the influx of immigrants into the United States from 1980 to 2000 decreased the wage of the average U.S. born worker by 3.7%. The work of Professor Borjas has garnered a substantial amount of adherence among economists.

Professor Peri, your paper, *Re-thinking the Gains from Immigration: Theory and Evidence from the U.S.*, seems to challenge Borjas's assertions. You conclude that the influx of immigrants between 1980 and 2000 actually made the average U.S. born worker better off, increasing the real value of her wage by around 2%. Why the conflicting results?

I am well aware of the differing results. Let me begin by explaining where the differences come from and then discuss what one should take away from the conflicting results. Both studies are based on simplified models of the U.S. labor market. Professor Borjas's work is focused on the wage-depressing effect of immigrants who come into this country and directly compete with U.S. born workers for the same jobs. Of course, if you are an American gardener and there are a bunch of foreign-born gardeners that come in, the competition is going to push down your wages. So, there is the effect of pushing down wages. However, there are two other effects of immigration that Professor Borjas does not account for. First, labor is not a homogenous factor; there is more than one kind of worker. Workers differ in skills, abilities, and occupations. Thus, the level of competition foreign-born people bring to America depends on how similar their skills and job preferences are relative to Americans. Second, investment responds to opportunities. Hence, immigration attracts new investments. Let me analyze these two aspects in greater detail.



Professor Giovanni Peri

[Print this Article](#)

[Cite this Article](#)

[E-mail this Article](#)

[Masthead for this Issue](#)

Related Articles

- [Unintended Consequences](#)
- [Offshore Outsourcing to India by U.S. and E.U. Companies](#)
- [INVESTING IN CHINA](#), by Winston Ma, Risk Books, London, 2006
- [Homeland Security and Employment Law Litigation](#)
- [Monitor With No Teeth](#)

“Foreign-born
workers
complement
what
native-born
workers know
how to do and
increase U.S.

The typical foreign-born worker is crucially different from the average U.S. born worker in two respects. These two differences underlay my claim that foreign-born workers bring less direct competition than complementary aspects to the U.S. labor force. First, if you compare the education of immigrants to that of native-born Americans, the American born are mostly concentrated at the intermediate level. There are few Americans without a high school degree but, on the other hand, only a select few attain more than a college degree. Immigrants generally come in two extreme groups: those without a high school degree and those with more than a college degree. Unsurprisingly, these immigrants tend to occupy vital jobs and fulfill crucial tasks which are relatively unwanted or unoccupied by native-born Americans. In other words, very different skills, preferences, and occupations allow the immigrant work force to complement the American work force rather than directly compete with it.

Moreover, even within the same education group, U.S. born workers tend to be employed in different occupations than their foreign-born counterparts. This suggests a difference in employment preferences between the two groups. At the lower end of the education spectrum, most U.S. born workers without a high school degree are employed in manufacturing. Most immigrants with the same level of education are either employed in agriculture or the services industry (e.g. gardening, service to the elderly, personal services, and landscaping). Similarly, at the higher end of the education spectrum, most of the foreign-born enter the science, engineering, and technology fields. In contrast, their American-born counterparts tend to be more concentrated in social sciences, education, and law. Hence, they are not in direct competition but, rather, complement each other well. For example, most lawyers know that a productive law firm requires a workforce of employees with a variety of skills. It needs some employees to run the computer systems, some to take phone calls, and, on some occasions, statisticians to provide evidence. The statisticians are usually foreign-born. Therefore, foreign-born workers complement what native-born workers know how to do and increase U.S. productivity.

The second thing that Borjas does not take into account is the fact that skills and workers stimulate investment. Borjas analyzed the impact immigrants have on wages but kept the number of firms fixed in the U.S. economy. However, a larger population of, say, potential textile workers, makes U.S. entrepreneurs more likely to set up a new textile firm. Therefore, to get a more accurate measure of the impact that immigrants have on the U.S. economy, one should also account for the increased investment in physical capital which is also a complement of these workers. Borjas does not account for this complementary aspect.

Accounting for the aforementioned differences, one finds that the immigration boom between 1980 and 2000 had a positive effect on native-born U.S. workers as a whole. Given that we know firms react in investment and that foreign-born and U.S. born workers do not compete for the exact same jobs, I believe my model conveys a more plausible scenario. In other words, I think that my simplified model is a step towards a higher and more realistic representation of reality. So what should we take away from these two different numbers? Both of them come from relatively simplified models of reality but my model accounts for two more factors: responses in investment and differences in skill. I think that my model is a step further in the right direction.

Q: If our goal as a society is to improve the economic viability of the U.S. economy as a whole, what does your research suggest be done to immigration laws in this country? Does your research suggest that it might be in our nation's interest to return to a strict quota system, setting the roof on the number of immigrants allowed from particular countries?

I don't think a quota system that is based on country of origin is very sensible. From an economic point of view, I think a quota system based on skills would be a much more meaningful system. My research claims that there is a U-shaped form of migration. There are either low skilled or high skilled immigrants. This is actually a good thing for native-born American workers. At the low skilled end of the spectrum, foreign-born workers fill jobs that Americans are increasingly "moving out of". Such jobs include agriculture and personal service jobs. As Americans become more educated, they move away from these types of jobs.

In contrast, at the high end of the spectrum, foreign-born workers are able to fill jobs which require sophisticated skills and a great deal of creativity. It is better to fish from the whole world in order to get the best people to fill these jobs rather than limit oneself to persons born in the U.S. Thus, I think a system based on numbers or quotas for each level of skills would be much better from an economic standpoint.

Canada, for instance, is a model to draw inspiration from. They have a point system based on workers' professional and educational skills. I think this kind of system is appropriate; it allows for economic considerations and seems to be a good method to follow. Of course, there are many other issues to consider. While I talk as an economist, I know there are many other issues such as international relationships with countries, relationships with neighboring countries, and so on, which need to be considered when developing a quota system. I just want economic considerations to be one of the variables included when deciding on which type of quota system to use. Currently, economic considerations and skills do not seem to be discussed very much. Instead, people tend to focus on country of origin as the basis for quota systems. I think the basis for a quota system should be more encompassing; it should also be based on the skills of migrants.

productivity;
the negative
effects seem to
be relatively
small & there
were many
more
Americans who
gained rather
than lost.”

Q: Can you describe the impact the influx of immigrants between 1980 and 2000 had on different segments of the U.S. workforce?

Sure. This is another key question. The 2% increase in the real wage of native U.S. workers is an average number. It comes out of combining effects which differ among U.S. workers with different levels of schooling. U.S. workers without high school degrees were somewhat hurt for two reasons. First, in the last twenty years, the largest inflow of immigrants has been within this low-skill group. Second, this group is employed in the lowest skill industries. As skill requirements decrease, workers become more substitutable. Thus, in these industries, it is much easier to substitute native-born workers with foreign-born workers. On the other hand, at the high-end of the spectrum, it is very hard to substitute. It is much harder to substitute a native-born lawyer or engineer with an immigrant. In terms of wages, there is a moderate negative impact on people without a high school degree but there is a positive impact for just about all other native-born workers (from high school on). To give you an idea, in the year 2000, only 10% of U.S.-born workers did not have at least a high school degree and 90% had at least a high school degree and about 29% had a college degree or more. 90% of the U.S. labor force experienced an increase of about 1.5% in their wages while the remaining 10% lost 1.2% of their wage. The native-born workers at the lowest end of the educational spectrum lost some wages, but did not lose much. Clearly there is a distribution effect; the influx of immigrants had a different effect across different levels of skill. However, the negative effects seem to be relatively small and there were many more Americans who gained rather than lost.

Q: Programs, such as the H 1 Visa Program, permit U.S. employers to bring foreign workers into the U.S. to be trained to work in highly technical fields on a long-term basis. These programs are designed to increase the number of foreign-born technical workers in this country. What economic concerns do you think should drive the debate about whether the H 1 Visa Program and other similar programs should be expanded or constricted?

I happen to be a person who believes that highly skilled and educated immigrants do a lot of good for the U.S. economy. These immigrants represent a very select sample of people from around the world. These highly skilled immigrants come, or try to come, into the U.S. because this is where the best research institutions and highest paid jobs are located. So the question is, given that the U.S. has this potential supply of highly educated people from India, China, Europe, and the Middle East, does the U.S. want to severely limit these immigrants from coming in by putting up hurdles? Or, would the U.S. want to encourage them to come in? I believe that the science and technology industries in the U.S., in the last ten years, have been largely dependent on some of these people. Those jobs have largely been filled by international brains.

These highly educated and skilled immigrants are mobile. If the U.S. makes it harder for them to come in, they will go to Canada or the United Kingdom. If they do, the U.S. will lose out on these international minds. This is not something that is particularly good for the U.S. So, with respect to the debate on the H1 Visa, one should have in mind that putting constraints on the inflow of these people would basically divert these people somewhere else. Science is a global enterprise by definition because you have to compete with the rest of the world to come up with the next brightest idea. Given this fact about science, it would harm American research centers and companies, vis-à-vis the rest of the world, to exclude highly skilled and highly educated immigrants. In an economy that is driven more and more by technology, science, and innovation, I think the H1 Visa is a very good instrument to allow intelligent people into this country. If anything, one would want to revise these numbers up, to allow more in, rather than down.

Q: Following September 11th, there has been a strong political movement to strengthen U.S. borders against illegal immigration. Recently, the security of the Mexican border has come into the political limelight. Senators John McCain (R-Arizona) and Edward Kennedy (D-Massachusetts) have sponsored a bill called “The Secure America and Orderly Immigration Act”. If the bill were to become a law, it would allow hundreds of thousands of low-skilled workers to come into the U.S. from Mexico and give temporary visas to many illegal immigrants already in our country. Can you comment on illegal Mexican immigration? Are there economic reasons to regulate that type of immigration differently?

Illegal immigrants are a delicate issue and any country based on the rule of law has a right to impose laws regulating immigration. Just as any other law, those conditions should be met. I believe that it is absolutely right to require that people enter this country legally. Every country has a right to choose who is allowed in and who is not. Especially considering the modern security, safety, and health concerns in the world, (such as terrorism and the avian flu) a country needs to exercise its right to control immigration. On the other hand, I think fears of illegal immigrants are overblown in terms of economic consequences. My data and analysis includes, for the most part, illegal immigration. There does not seem to be a significant negative economic impact from them. Moreover, the fact that there are many people willing to risk their life to come into the U.S. illegally denote the fact that they have a huge willingness to come here and there is a labor demand waiting for them.

I would like to separate two issues. The security and the safety of the border is one issue I think the U.S. should do whatever is necessary in order to enforce in order to promote security and respect for the rules. However, one needs to recognize there is also a huge immigration pressure. This is not necessarily a bad thing for the U.S. As I

have said, the inflow of people is an opportunity for the U.S. The bill would increase in the number of visas, which would allow workers to legally come in from Mexico to work for awhile and potentially apply for residency if they fulfill certain criteria. I welcome it as a very interesting and good idea. However, there is one thing that the law would also do which I am worried about. It would allow some current illegal immigrants to become legal and work. While this would probably solve some problems in the short term, my question is, does it send the right message? These people came and are coming here illegally and would somehow end up being rewarded for breaking the law.

Being a foreign-born immigrant from Italy, knowing how hard and how many steps it takes to come into this country legally, I think this aspect of the bill would be unfair towards people who have taken all those steps. There is a need to get information about who these people are, but I think we need to send a very strong message. Specifically, we would need to say that this law is a once and for all thing so that more people do not come into this country with hopes that something like this will happen again in the future. Second, I believe we need to find a way to make them accountable: either by paying past taxes or by paying some substantial fee. I do not think you want to reward illegal behavior because of the incentives that creates and the message that it will send.

In addition, one thing that I think is missing from the bill is that it predominately focuses on temporary visas for low skilled workers and does not talk very much about the highly skilled end of the spectrum. There are not many H1 visas that will be given to the highly educated. I think a comprehensive reform would need to address these issues in one complete and coherent body. While Mexicans are more visible, especially in a state like California, other immigrants such as Chinese and Indians are just as important for our economy, and they are finding it hard to come in. I think a complete reform should address some of these issues too. Apart from the aforementioned shortcomings, the bill seems to be quite balanced and a potential step in the right direction.

Q: Finally, if we could step back to a more general level, can you comment on the long-term viability of your studies? Holding current immigration trends and immigration law constant, do you believe there is a point at which increases in foreign-born workers will begin to make the average U.S. worker worse off?

Interestingly, in my work on U.S. cities, I found that the effect of foreign-born workers on U.S. wages is positive but not unbounded. The positive effect was dominant until the percentage of foreign-born in a city became higher than 30% or 40%. At that point, the positive effect started to fade. While it is true that skills from foreign-born workers are beneficial, an economy needs some time to assimilate them. A large and sudden influx in a city may clog the system and a negative impact may result.

However, from a historical standpoint, the current percentage of foreign-born in the U.S. as a whole is not that large. The U.S. is not even at the level of 1910, which was the peak of the flow of immigration. As a whole, I think the U.S. can safely absorb foreign-born immigrants for awhile. However, there are some local economies which may be close to the aforementioned saturation point. Some economies in Southern California, for example, have more than 35% to 40% of the foreign-born immigrants. In these economies, most of the foreign-born workers are in the low skilled end of the spectrum. Maybe the beneficial effect has been completely exhausted in those areas and getting more foreign-born may have a small effect or perhaps no effect on the wages of native-born. It could be interesting to think of a system which would encourage some of these immigrants to go into different states and spread out instead of staying in the few states where they are currently located.

U.S. history has proven that the U.S. economy has a remarkable ability to absorb foreign-born workers. As I already mentioned, between 1880 and 1910, the flow of foreign-born relative to the population of the U.S. was much larger than it currently is. After those years, a period of incredible development for the U.S. followed during the 1920s. The Depression of the 1930s slowed immigration down and finally World War II stopped the flow completely. The immigrants that came during the peak years were mostly Italian, Irish, and Polish. These groups have become an essential part of the U.S. economy. I predict that this is going to happen again; the new inflow of foreign-born workers are going to become the future Americans. Spread out over time and in different regions of the country, there is a great potential for absorbing a lot more foreign-born workers into the U.S. These immigrants will probably thrive, just as their predecessors did in the past.

Thank you Professor Peri for taking the time to discuss what is surely going to continue to be an important legal and political debate. Your insight is greatly appreciated.

Copr. © Ali Karaoui & Jennifer Adkins, 2006. All Rights Reserved.

Ali Karaoui and Jennifer Adkins are 1Ls at UC Davis School of Law.