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Immigration Reform and The West

When President Reagan signed the Immigration Reform and Control Act of 1986 last November, for the first time in the history of the United States, it became illegal to hire an undocumented foreign worker. Formal enforcement of the new legislation began on July 1 following an eight-month grace period.

The majority of undocumented workers are believed to reside in the western and southwestern parts of the country, and half of them are estimated to live in California alone. Thus, labor markets in states comprising the Twelfth Federal Reserve District (Alaska, Arizona, California, Hawaii, Idaho, Nevada, Oregon, Utah, and Washington) are expected to be among those most affected by the legislation.

Last summer, farmers in Oregon and Washington reported produce rotting in the fields, while apparel manufacturers in southern California complained of empty factories and unfilled orders. Will these shortages disappear once immigrants and employers learn to comply with the new law, or do they indicate real change in the supply of labor to the western industries most dependent on undocumented workers?

This *Letter* investigates the impact of immigrants on U.S. labor markets. It concludes that some of the shortages seen so far are likely to persist and raise wages permanently in some industries, possibly leading some manufacturing firms to relocate to lower-wage countries. Agriculture may be less affected by the new law because of special amnesty provisions for seasonal agricultural workers and a temporary worker program.

New legislation

The new immigration law requires all employers to document each employee's status in this country upon hire. The penalties for not doing so are severe. Fines for failing to keep records of employee residency documents can go up to $1,000 per worker. Fines for knowingly hiring an undocumented worker range from $250 to $2,000 per worker on a first offense to $10,000 per worker for a third offense. Employers demonstrating a "pattern or practice" of hiring undocumented workers can receive prison terms of up to six months.

The new law also provides for amnesty for some foreigners currently residing illegally in the U.S. Any foreign-born person who can prove continuous residence in the U.S. since 1982 is eligible for permanent residency — a status that eventually can lead to citizenship.

In addition, the Act contains two provisions designed to ensure a continued supply of inexpensive agricultural labor. First, amnesty will be granted to as many as 350,000 seasonal agricultual workers if they can prove that they have been residents of the U.S. for at least three years or that they worked on perishable agricultural crops for at least 90 days in the year ending May 1, 1986. Additional workers will be admitted to replace those granted amnesty as they leave agriculture to pursue opportunities in other sectors. Second, the legislation establishes a temporary worker program that allows agricultural employers to apply for permits to bring workers to this country for sixty days if they also guarantee to pay the workers certain wages, benefits, and travel costs.

Undocumented labor

The 1980 Census of Population counted 14 million foreign-born individuals in the U.S., with 4.4 million in the Twelfth District. While Census data do not distinguish between the legal and illegal status of immigrants, it is estimated that about 2 million of those counted entered this country illegally. In addition, the Census is estimated to have missed another 1 to 1.7 million illegal immigrants. Thus, 3 to 3.7 million foreign-born persons were thought to be residing illegally in the U.S. in 1980, of whom 2 million are believed to be Mexican. Of Mexican immigrants counted in the Census (legal and illegal), 60 percent lived in California (64 percent in the Twelfth District).

Because of repeated border crossings, these counts are likely to understate the influence of undocumented Mexican labor. Nevertheless, they do imply a concentration of predominantly Mexican undocumented workers in the West. This *Letter* therefore focuses primarily on the effects of Mexican immigrants on western labor markets. This focus is further justified by the higher labor force participation rate for Mexican immigrants than for immigrants from other countries

To speculate about the effects of the new immigration legislation on labor markets in the West, one must know what effect the presence of undocumented workers has had on labor markets here in the past. Two common perceptions need to be refuted. The first is that the competition presented by undocumented workers willing to work for low wages depresses the wages received by native workers for the same jobs. The second is that employers would substitute immigrants for native workers, thereby increasing the number of native-born workers without jobs.

Effects on wages

The extent to which the presence of immigrants reduces natives' wages depends on how well immigrant labor can substitute for native labor. Where the presence of some immigrant groups appears to lower the wages of some native workers, the magnitude of the effect has been found to be very small.

According to a study by economist George Borjas using data from 1980, the largest of these effects is that of white immigrants on white native workers' wages. Borjas found that a 10 percent increase in the labor force share of white immigrants is associated with a 2.5 percent drop in the wages of their native counterparts. This reflects the fact that white immigrants, largely European, have education, skill levels, and language abilities comparable to white native workers, and so represent a competing source of labor.

Non-European groups (Hispanic, Black, and Asian) are not likely to compete for the same jobs and their effects on wages are generally much smaller than those of European groups. A 10 percent increase in the share of a metropolitan labor force of any of these non-European immigrant groups was found to induce at most a 0.2 percent drop in the wages of natives. Similar results obtained by economist Jean Grossman using 1970 data imply that the roles of different immigrant groups in labor markets may be fairly constant over time.

Other studies have detected an effect on the wage of natives only when foreign-born workers accounted for more than 20 percent of all manufacturing production workers in a metropolitan area. Five metropolitan areas in California had reached this threshold in 1980: Los Angeles with 46 percent, and Anaheim/Santa Ana, San Francisco/Oakland, San Jose, and San Diego with shares between 20 and 30 percent. Only four other cities in the U.S had such high shares: Miami, New York, Newark and Chicago.

Since undocumented workers have lower levels of education and skill than the immigrant population in general, their effect on wages is undoubtedly even smaller. Most undocumented immigrants have little education or training, and speak little English. Data on apprehended, undocumented Mexican workers indicate that about half of them come from a background as agricultural laborers and have an average of only 4.9 years of education. In contrast, U.S. natives have an average of 12.4 years of education.

Effect on unemployment rate

Furthermore, there is no evidence that the presence of Mexican-born workers raises the unemployment rates of the groups of native workers that exhibit the highest unemployment rates. In particular, a study by Urban Institute researchers Thomas Muller and Thomas Espenshade using 1980 data suggests that, in southwestern metropolitan areas, the proportion of the population that was Mexican-born had no effect on the unemployment rate of black native workers. Instead, it found that the most important explanation of black unemployment is the level of educational achievement in the black population.

More importantly, simple "impact" studies ignore the generally beneficial effect that economists believe undocumented labor has on overall standards of living. Evidence that immigrants compete little with native workers is broadly consistent with the view that a large supply of undocumented workers may provide an impetus for growth.

In Los Angeles during the 1970s, for instance, manufacturing employment growth far exceeded the national average, while wage growth in the area remained below national levels. Although other factors may have been at work, this simple observation supports the idea that the supply of low-wage labor may have attracted industries, such as apparel manufacturing and product assembly, and thereby contributed to the health of the Los Angeles region.

Changes in labor supply

Undocumented workers are particularly concentrated in a few industries. For example, the Federal Reserve Bank of Dallas estimates (based on 1980 Census data) that 12 percent of all undocumented workers in the U.S. are employed in apparel and textile manufacturing, while 8 percent are employed in agriculture, 7 percent in restaurants, and 6.5 percent in construction. The effect of the new immigration legislation on labor supply will undoubtedly vary across industries depending on the extent to which an industry relies on undocumented workers. Amnesty provisions in the new law also could mitigate against effects on the labor supply to various industries.

Agricultural employers, who have depended heavily on undocumented workers in the past, benefit from specific provisions for amnesty that are more generous than those for the economy as a whole. If effective, amnesty provisions for 350,000 seasonal agricultural workers should provide an agricultural labor force close in size to that available in previous years. California, for instance, is estimated to employ about 250,000 seasonal immigrants in agriculture during the summer season.

Furthermore, under the new law, farmers may apply for permits to bring additional temporary workers to this country. While growers are concerned that the special provisions for agricultural workers may not be sufficiently flexible to accommodate seasonal crop labor needs, the law has at least addressed those needs.

The more general amnesty provisions, however, may be less effective in guaranteeing a sufficient supply of legal, low cost labor to industries other than agriculture. Already there are signs that fewer applications for amnesty will be filed than originally expected. The Immigration and Naturalization Service (INS) had prepared to handle 3.9 million applications, but received only 800,000 applications in the first five months of the year-long program. INS analysts have since revised downward the number they expect to 2 million.

A survey of undocumented workers from Mexico apprehended during the 1970s found that they had been in the U.S. an average of 2.4 years and taken an average of 4.5 trips in and out of the country between 1970 and 1975. If illegal immigrants in the 1980s followed this behavior, many of those employed here prior to enactment of the new law would not be eligible for amnesty. After years of living underground, many more would be unable to prove residency regardless of how long they have lived here. Other eligible immigrants are not applying for amnesty for fear of exposing ineligible family members to the risk of deportation.

Conclusion

A tightening of labor markets in industries other than agriculture may well result from the Immigration Reform and Control Act of 1986. Employers may have to raise wages to attract legal immigrants and native workers who, because of their higher skill and education levels and better language abilities, have better job opportunities than the undocumented workers who will have departed.

Firms in highly competitive industries may have difficulty absorbing this increase in cost. Affected manufacturing firms may consider moving production overseas (or to Mexico) where they can regain their cost advantages by using inexpensive labor there. Prices may rise in service businesses unable to relocate — fast-food restaurants, domestic service and construction, for example.

In sum, the new legislation will reduce the advantages enjoyed by those employers who historically have relied on ready supplies of undocumented, low-skilled, low-wage workers.

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Editorial comments may be addressed to the editor (Gregory Tong) or to the author. . . . Free copies of Federal Reserve publications can be obtained from the Public Information Department, Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco 94120. Phone (415) 974-2246.

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BANKING DATA—TWELFTH FEDERAL RESERVE DISTRICT
(Dollar amounts in millions)

Selected Assets and Liabilities Large Commercial Banks	Amount Outstanding 12/2/87	Change from 11/25/87	Change from 12/3/86 Dollar	Change from 12/3/86 Percent[7]
Loans, Leases and Investments[1] [2]	207,631	234	1,745	0.8
Loans and Leases[1] [6]	183,726	352	− 1,668	− 0.8
Commercial and Industrial	51,309	167	− 448	− 0.8
Real estate	72,504	77	5,509	8.2
Loans to Individuals	37,129	236	− 4,391	− 10.5
Leases	5,423	− 7	− 164	− 2.9
U.S. Treasury and Agency Securities	16,574	− 65	3,614	27.8
Other Securities[2]	7,331	− 52	− 202	− 2.6
Total Deposits	209,342	2,470	− 2,082	− 0.9
Demand Deposits	53,900	1,727	− 3,611	− 6.2
Demand Deposits Adjusted[3]	36,645	− 1,221	− 3,370	− 8.4
Other Transaction Balances[4]	20,512	648	1,477	7.7
Total Non-Transaction Balances[6]	134,930	94	52	0.0
Money Market Deposit Accounts—Total	44,372	293	− 2,204	− 4.7
Time Deposits in Amounts of $100,000 or more	31,399	− 449	− 1,364	− 4.1
Other Liabilities for Borrowed Money[5]	24,605	1,959	− 3,964	− 13.8

Two Week Averages of Daily Figures	Period ended 11/30/87	Period ended 11/16/87
Reserve Position, All Reporting Banks		
Excess Reserves (+)/Deficiency (−)	105	18
Borrowings	9	6
Net free reserves (+)/Net borrowed(−)	96	12

1 Includes loss reserves, unearned income, excludes interbank loans
2 Excludes trading account securities
3 Excludes U.S. government and depository institution deposits and cash items
4 ATS, NOW, Super NOW and savings accounts with telephone transfers
5 Includes borrowing via FRB, TT&L notes, Fed Funds, RPs and other sources
6 Includes items not shown separately
7 Annualized percent change