

University of California, Davis
Department of Agricultural Economics

ILLEGAL IMMIGRATION AND THE LABOR MARKET

by

Philip L. Martin

March 1985

Paper presented to the Conference on Immigration and Refugee Policy,
March 28-29, 1985, Washington, D.C.

From the Library of: NATIONAL MIGRANT REFERRAL
PROJECT, INC.

A
II Resource ID#: 1539

U
C
to
Illegal immigration and the labor market : paper
presented to the conference on immigration and
refugee policy, March 28-29, 1985, in Washin

IMMIGRATION AND THE LABOR MARKET

For the past seven years, the Immigration and Naturalization Service (INS) has been apprehending an average two illegal aliens or undocumented workers each minute of every day, 365 days a year. Apprehension statistics are inflated because some individuals are caught several times, but there is widespread agreement that three to six million immigrants are living and working illegally in the United States. These immigrant workers should have significant economic impacts: the undocumented workforce is as large as the Pennsylvania workforce and earns at least \$25 billion annually.¹

A major concern of policymakers is how the influx of several million unskilled and semi-skilled illegal or undocumented immigrant workers affects the job and wage prospects of American workers (resident citizens and legal immigrants). There are two major propositions:

- Most economists assume that additional unskilled workers will depress the wages and increase the unemployment of similar American workers, at least for the first five to 10 years after large numbers of such workers arrive.
- Some economists assert that labor markets are segmented, and that undocumented workers tend to flow into the bottom tiers of the labor market and fill jobs that Americans refuse.

When the debates over immigration reform began in the mid-1970s, most policymakers assumed that additional workers depressed wages and increased unemployment. Since then, the segmented theory has taken hold in some quarters: the idea that immigrant employment patterns minimize labor market competition and thus generate benefits but few costs has been advocated by a number of scholars.²

The purpose of this paper is to examine how unskilled and undocumented immigrants affect U.S. labor markets, especially in the Southwest.⁴ The main conclusions are that:

- Undocumented workers displace Americans by changing the nature of recruitment and supervision in immigrant-dominated industries so that English-speaking workers are excluded from consideration for certain jobs.
- Businesses that do not hire undocumented workers compete for market share with firms that do, and the expansion of firms dependent on undocumented workers indirectly displaces American workers and depresses wages.
- The lower wages effectuated by undocumented workers get capitalized into the values of farmland and business assets so that resistance to immigration reforms that will raise wages and reduce the value of such assets increases over time.

1. Network Recruitment and Labor Displacement

Immigrant workers displace American workers indirectly by getting hired in high turnover jobs and persisting as Americans quit. Pioneer migrants get promoted to supervisory positions with responsibility to recruit workers as vacancies arise, and these immigrant supervisors hire new workers through networks of friends and relatives that operate much more efficiently in Mexican villages than in American ghettos. The language of the workplace changes, and unemployed English-speaking workers are excluded from consideration for vacant jobs. Ethnic enclaves that exclude unemployed English-speakers have emerged in southwestern agriculture, construction, light manufacturing, and services.

Undocumented workers are not spread out evenly across the U.S. labor market; instead, they are concentrated in certain industries, occupations, and areas. Even within immigrant-dominated industries and occupations, undocumented workers tend to be concentrated. For example, seasonal fruit and vegetable harvesting jobs in the southwest have long been filled by legal and illegal Mexican workers, but some commodities appear to have much higher percentages of undocumented workers than others. The California citrus harvesting workforce, for example, is over 50 percent undocumented, while the grape harvest workforce in the same area is about 20 percent illegal, a difference explained in part by the tradition of using crews of single men to harvest oranges and families to harvest grapes. Similarly, the urban restaurants and hotels that employ undocumented workers usually confine such workers to backroom jobs in restaurant kitchens and room cleaning. These undocumented workers fill important jobs, but few such establishments have a workforce that is mostly undocumented because they must also employ waiters and waitresses and clerks.

The major concentrations of undocumented workers appear in establishments that employ a large number of workers in a few job classifications such as harvester in agriculture, assembler in manufacturing, laborer in construction, or janitor in services. In these jobs, the undocumented workers displace American workers and depress wages after a "pioneer" immigrant worker is recruited or hired and proves to be more flexible and persistent than the unskilled Americans who are also employed. The rate at which American workers leave unskilled jobs is very high--annual turnover is often 100 to 300 percent, meaning that 1 to 3 persons must be hired every year to keep a job filled.⁴ In the initial stages of undocumented migration, the sharp contrast to the employer between the dedicated immigrants and the American

workers who are frequently absent or quitting encourage employers to promote the immigrant to be a supervisor and make him or her responsible for recruiting and training new workers.

The immigrant supervisor acts rationally: as American workers quit, they are replaced by friends and relatives with similar attitudes toward work. Given the high turnover in these jobs, a workforce can become completely undocumented within 3 to 12 months. Once a citrus crew or a tortilla factory work force is recruited, trained, and supervised by an immigrant supervisor, job vacancies are filled by recruiting the friends and relatives of current workers; they are not advertised in the newspaper or filed with the Employment Service where unemployed Americans might learn about them.

The network supervision and recruitment system operates efficiently: new workers are available when needed, and the employer does not have to restructure jobs to attract workers, pay for a personnel department, or experiment with quality-of-work projects to retain workers. Indeed, many employers lose the ability to communicate directly with the immigrant workers employed in their establishments, and so the bilingual supervisor becomes a critical intermediary who can side with workers or the employer. The inability of the business owner to communicate directly with the workforce and suspicion about the fidelity of some supervisors have led to the emergence of bilingual personnel consultants: in California agriculture, there are at least 100 bilingual consultants or employees of farmers' organizations who travel around the state to tell workers why they won't get a pay raise or why they should not join a union because the employer is unable to communicate directly with workers.

Once the network recruitment and supervision system is established, unemployed American workers do not hear about job vacancies. In businesses

that now have completely Mexican workforces comprised of both legal and illegal immigrants, employers often report that the last Anglo or Black worker left five to 10 years ago. Once English-speaking workers leave, the working language changes to Spanish, Chinese, or Tagalog, yielding the irony that English-speaking workers are least likely to be hired by the supervisor-recruiters of farmers, garment shops, and janitorial firms.

The process of network recruitment effectively shuts American workers out of certain jobs. Most of these jobs would be taken by Americans only as a last resort, and so these jobs are not "missed" by unemployed American workers who can voice their frustrations effectively. Network recruitment has shut the California harvest labor market to Anglos and Blacks for over a decade, and similar ethnic enclaves are emerging in a variety of manufacturing and service enterprises. An extraordinary event is required to make unemployed Americans aware of the jobs in these immigrant enclaves: it took a bitter and lengthy strike by immigrant mushroom workers in California to make unemployed Americans realize that unionized mushroom pickers average \$7 to \$8 hourly and \$15,000 annually for this year-round farm work, and local papers soon received angry letters about immigrants who had "stolen" good jobs.

The important conclusion of network recruitment is that Americans are displaced from certain jobs, but that displacement occurs indirectly, as American workers leave voluntarily and the network recruitment which follows simply excludes them from consideration for vacant jobs. There is undoubtedly some one-for-one displacement,⁵ as when an undocumented and American worker apply for a single job and the undocumented worker is hired because he or she will work "hard and scared," but most of the displacement that has been found in California occurs via this substitution of network recruitment for direct employer hiring.

What would be required to break this pattern of pioneer immigrants, network recruitment, and indirect displacement? If the immigrant workers were as unreliable as the Americans, employers would have incentives to upgrade or eliminate jobs, automate, or try to "make-do" with an ever-changing work force. Immigrants could be perceived as unreliable if the INS regularly disrupted work or if the immigrant workers settle and make "American-style" demands for better wages and fringes. However, the current enforcement system is not disruptive enough to make undocumented workers unreliable, but it is efficient enough to permit the employer to weed out "troublemakers" by, for example, refusing to rehire union activists after they have been apprehended. The current enforcement system's periodic workplace inspections thus increase the reliability of the immigrant work force and reinforces the tendency to exclude American workers.

2. Business Competition and Wage Depression

Once network recruitment gives some businesses immigrant work forces, a complex business competition often ensues which depresses wages and displaces American workers. An agricultural example clearly illustrates this process.⁷ About 80 percent of California's citrus groves are owned by absentee investors, and their oranges and lemons are picked by farm labor contractors, custom citrus harvesters, employer co-ops, and work crews hired directly by growers or farm managers. In the southern California lemon industry, an explicit decision not to hire undocumented workers in the early 1970s coupled with fringe benefits and promotion opportunities led to a settled Mexican-born family work force instead of the traditional migratory crews of young Mexican men. The dominance of five employer co-ops with such personnel policies led

to a standard wage and fringe benefit package for harvest workers throughout the area.

The settled workers began to compare themselves to nonfarm workers, and they demanded increased wages and fringe benefits from growers in the late 1970s. Lemons are overproduced: less than 40 percent of the lemons that are harvested are sold as fresh lemons to consumers in the United States and abroad, so 60 percent must be sold to the processing market to be used in dish soap or soft drinks or destroyed. Several years of low fresh lemon prices and processing market prices that did not even cover harvesting costs made growers resist demands for increased wages, and the United Farm Workers union successfully organized settled lemon harvesters in 1978-79. Growers, still seeking to lower harvesting costs, encouraged farm labor contractors who relied on undocumented workers to come into the area so they were not forced to continue turning to the now unionized harvesting co-ops.

The labor contractor system spread quickly because contractors offered to pick lemons cheaper and most growers opposed the union. Lemons are picked for piece-rate wages, and the average hourly wage of unionized pickers stabilized at \$6 in the early 1980s and then both hourly and annual earnings fell as more and more growers turned to labor contractors. The unionized co-ops were squeezed between a resident workforce that expected rising wages and fringe benefits and labor contractors willing to harvest lemons cheaper, and the co-ops' share of the lemon harvest dropped from 80 percent in 1978 to 20 percent today. Average hourly and annual earnings have decreased, but these decreases cannot be observed in wage statistics. The handful of unionized workers who harvest lemons on corporate farms that fear a union boycott of their nonfarm products if they switch to labor contractors are

earning more than ever before, but the undocumented workers who now harvest most of the area's lemons are earning lower wages than the settled legal workers who used to dominate the harvest work force.

The lemon harvest provides a clear example of how employers with different degrees of reliance on undocumented workers compete for business. The winning businesses (labor contractors) dependent on undocumented workers have depressed wages and displaced American workers, but the competition in the marketplace (between co-ops and contractors) obscures the indirect nature of labor market competition. In a few years, market competition and network recruiting can change the nature of both the employer and the work force in an industry. If the winning business depends on undocumented workers, then it honestly asserts that it will "go out of business" if the influx of undocumented workers is reduced.

Agricultural harvesting provides a clear example of wage-inspired market competition that in turn depresses wages and displaces American workers but leaves few traces in wage and employment statistics. A similar process occurs in nonfarm businesses, as when a general building contractor subcontracts clean-up jobs instead of hiring such workers directly or when a building manager subcontracts janitorial services instead of hiring janitors directly. This subcontracting process, which leads to the establishment of some of the new small businesses credited with creating most new American jobs and provides evidence of the entrepreneurial vigor of immigrants, often lowers the attractiveness of affected jobs in the eyes of American workers. The American worker willing to start as a clean-up laborer and hoping to move-up with the general contractor may be less willing to work for a contractor who only cleans-up building sites.

In manufacturing, market competition is even more complex. Food processing, garment, and furniture businesses often assert that they "would go out of business" if they lost their access to undocumented workers. However, many of these under-capitalized firms will probably go out-of-business even with undocumented workers; cutting-off undocumented workers simply affects the timing and the stated reason for business failure. Business failures are common: fully one-third of the 500,000 to 600,000 new businesses started each year in the United States fail.

A food processing example illustrates how changes in immigration enforcement can be blamed for business failure which is really due to other factors. California consumes more chicken than any other state, and chicken is processed in California and imported from southeastern states. During the 1970s, farmland prices in California increased rapidly, and farmers began growing more high-value fruits and vegetables instead of wheat and corn to feed to chickens. Chicken farmers and processing firms had to import feed from the midwest, and rising energy prices increased the cost of transporting wheat and corn to California. The chicken industry that was not adjacent to California's major rail lines suffered because costs were rising but poultry prices remained stable as southeastern farmers and processors closer to midwestern feed sources sent chicken to California.

The INS Operation Jobs raided several Northern California chicken processing firms, and their owners complained that Californians won't process poultry (although Americans do process poultry in the southeastern states). These firms argued that even if workers could be found to process poultry for higher wages, such higher wages would put the firms out of business. These relatively small and isolated processing firms correctly suspect that most will be forced out-of-business, but the underlying reasons for such business

failures are California land prices and the costs of transporting chicken feed, not immigration enforcement. Immigration enforcement simply affects the timing and stated reason for business failure.

These examples can be multiplied manyfold. In every instance, the availability of undocumented immigrant workers was an important factor that shaped the trajectory of an industry. The availability of undocumented workers favored labor contractors over employer-run labor coops in lemon harvesting, favored clean-up subcontractors over directly hiring such laborers in construction, and prolonged the life of sunset poultry-processing firms. The lesson of these examples is that undocumented workers do affect the jobs and wages of American workers, but the linkage between immigrant workers and American jobs is often a very indirect relationship obscured by business competition.

3. Undocumented Workers: Benefits and Costs

Large numbers of undocumented workers have been employed in the American economy for over 10 years. Their employment held down some wages and prices, created new businesses and preserved marginal firms, and permitted some labor-intensive employers to neglect personnel policies instead of being forced to devise programs to utilize hard-to-employ Americans.⁸ After 10 years, is large-scale undocumented immigration economically worthwhile? Should Americans care if it takes another 10 years to achieve a consensus on immigration reform?

Answering the "is it worthwhile" question requires difficult value judgements. The lower wages wrought by immigrants have in some instances already been capitalized into the values of land and businesses, and entrepreneurs can argue that a change in immigration policy after 10 years of

tolerating undocumented workers would mean for them a capital loss, since the value of a raisin farm or a janitorial business would probably fall if undocumented workers were not available. It is not farfetched to imagine that immigrant-dependent businesses will ask the federal government to compensate them for the losses they would suffer if undocumented workers were not available, much as the federal government provided low-interest loans and other adjustment assistance to firms and workers who were adversely affected by changes in trade policies that permitted increased imports.

The immigrant-dominated industries most likely to suffer such capital-losses if undocumented workers were not available include fruit and vegetable agriculture; a variety of landscape, building, and janitorial firms; and manufacturing and service enterprises. In these industries, the availability of low-cost labor is factored into land prices, business assets, and contracts to sew garments or clean buildings.

Potential losses in the expected value of a business or contract explain why some groups oppose immigration reforms, but how should such losses be evaluated? An agricultural example illustrates the dilemma. Grape acreage in California doubled during the 1960s and 1970s, and vineyards were bought and sold at prices which reflected expectations about labor costs and grape prices. Grape prices did not rise as expected, and the declining value of farmland has led to financial stress and farm bankruptcies. If immigration reforms increase farm wages, vineyard prices could fall further.

Low farm wages have been and continue to be capitalized into vineyard prices. The longer undocumented workers are available, the more land will change owners and the more "unfair" an immigration reform will seem to new farmers who already paid a premium price for land expecting to obtain relatively cheap harvest labor.⁹

An immigration reform delayed is an immigration reform made more difficult because wage costs get factored into the prices of assets which are bought and sold. One way to evaluate whether the adjustment costs of an immigration reform should be borne now or later is to examine the kinds of jobs and businesses that expand or persist if immigrant workers are available. In agriculture, acreages of hand-harvested grapes, citrus, and avocados have expanded enough to flood the market and prompt industry demands for protection from imports. In janitorial services, the number of cleaning jobs is unaffected, but new businesses have been created. In garments and other light manufacturing, jobs are created and preserved, but these jobs are likely to disappear if wages rise.

The American economy will generate more jobs and businesses if undocumented workers continue to enter and work in the United States. However, the creation of jobs in industries that produce surpluses and demand protection from imports or businesses that will disappear if wages rise may not be the best way to use immigration policy to help steer the economy.

Footnotes

¹Five million workers earning \$5,000 each.

²See, for example, Michael Piore. Birds of Passage: Migrant Labor and Industrial Societies (New York: Cambridge University Press, 1979).

³This paper is based on five years of research, primarily on California agriculture.

⁴During the 1970s, manufacturing firms hired two to three new workers per 100 current employees and one to two workers per 100 employees quit.

⁵As Walter Fogel summarizes, ". . . because illegal aliens tend to be better workers at unskilled jobs, employers prefer them and refuse to hire resident workers." "Illegal Aliens: Economic Aspects and Public Policy Alternatives," in San Diego Law Review, Vol. 15, No. 63, 1977 p. 70.

⁶A number of urban employers reported that they depend on periodic work place inspections to weed out troublemakers during a 1983-84 survey supervised by Richard Mines.

⁷R. Mines and P. Martin, "Immigrant Workers and the California Citrus Industry," Industrial Relations.

⁸The availability of baby boom teens, working women, and immigrants in the 1970s, coupled with rising energy costs and high interest rates, made the American economy more labor-intensive. However, worries about worker dissatisfaction and the quality-of-worklife were confined largely to high-wage unionized durable-goods manufacturing.

⁹A recent survey of fruit and vegetable growers and handlers placed "farm labor shortages and higher wages" seventh on a list of potential problems for the 1980s and 1990s, behind e.g., pesticide residues and imports. The survey concluded that the fruit and vegetable industry apparently has great faith in

the ability of its lobbyists to secure an "adequate and flexible" supply of farm labor. The Packer February 1984.