Immigrants and the Economy: 
Debates about Sustaining Economic Growth in Post-Industrial Societies

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Abstract

Developed world economies are concerned with how to create and sustain economic growth in contexts where the population is aging and there are increasing needs for young workers. Can an immigrant workforce fulfill the needs for both skilled and unskilled labour and can an immigrant workforce save pensions and social security? Will flows of immigrants provide the new labour force, or will large-scale flows, of especially low skilled immigrants, overwhelm the economy altogether? The debates about immigrant contribution to economic growth and the associated social and infrastructural costs are contentious and only slowly being resolved. At the moment the received wisdom is that in countries with skilled based immigrant policies, immigrants do provide contributions to economic growth, and even in countries which do not have a specific skill-based approach, there appears to be some added economic growth from the immigrant workforce. At the same time there is evidence in the United States and Europe of growing unregulated immigration, the emergence of an unregulated labour market, and growing social costs of unrestrained immigration. The evidence is not in but there are at least two stories to contend with in the ongoing discussion of immigrant impacts and the gains from immigration.

There is an emerging concern in developed world economies, where population is aging and the need for young workers is growing, with how to create and sustain economic growth. Will flows of young immigrants, willing to work, provide the new labour force or will

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large-scale flows of especially low skilled immigrants overwhelm the economy altogether? The debates about the immigrant contribution to economic growth and the economic costs are contentious although the overall evidence tends to favor the view that immigrants do provide significant contributions to economic growth, and even in countries which do not have a specific skill-based approach, there is still support for an immigrant economic contribution. It is difficult to make definitive judgments about immigrant contributions, and the discussion in this paper will provide some of the pros and cons about the immigrant intersection with economic growth. We will find also that it may be non-economic issues which, in the long run, will be the most difficult to resolve. The paper reviews some familiar ground by examining the demographic context of growth and the immigrant impact debate especially in a U.S. and Southern California context. It also provides an enriched perspective on immigrant impacts by examining changes in the structure of the labour force and the impacts of large scale undocumented immigration in California.

Economic growth has been and still is the central focus of developed economies. During the past three, perhaps even five decades with growing youthful populations there was not a great deal of concern with where the labour force would come from - it was largely home grown. Now, however, with the aging of the baby boom population and increasing longevity it has become increasingly apparent that there may be difficulty in finding the writers, teachers, skilled service workers and IT professionals that the economy needs. Where will businesses find the labour to provide the services in a growing knowledge economy? More generally, can immigration provide the solution to the dependency problem? All of this must be set within the costs and benefits to post-industrial societies as a whole.

The Demographic Context

Before examining the debates about immigrant contributions it is worthwhile stepping back and reviewing the demographic changes that created our current world, a world in which the population continues to grow despite slowing fertility. The world population is now about 6.6 billion people. Between 1900 and 2000 the world population grew from 1.6 billion to 6.1 billion, a rate of growth unprecedented in human history. The
world population tripled between the end of the depression and the end of the last century. It is this seven-decade experience of economic growth that informs most discussions of how we got where we are and our sense that economic growth in the 20th century is inextricably tied up in sustained population growth. While developed economies have reaped the advantages of this economic growth, never before have there been so many who want a share of the world's wealth. How will the poorest nations fare in the next 50 years? It is the disparities across nations, along with political instabilities, which create much of the world’s population migration and the changing demographic outcomes in OECD nations.

There is no question that the world population will continue to grow, that it will be much older, and that there will be many more international migrants (Figure 1). Some of this will affect New Zealand, a lot more of it will affect the United States and Europe. Those who wrestle with the problems associated with widespread poverty, environmental degradation, political conflicts, and continuing population growth have offered one of three alternatives for solving the “population problem” - a bigger pie, fewer forks, and/or better manners (Cohen 2006).

**Figure 1:** Growth of the world population and stock of international migrants
We can try and increase the size of the pie, that is increase our productive capacity, a topic that is central in any discussion of economic disparity and a critical element of providing jobs and economic opportunities for growing immigrant populations. We can reduce the number of people, which is essentially to say we can slow population growth, and perhaps at the same time moderate or change over-consumption by developed societies. The third scenario argues for reducing corruption and violence as a way of solving differences in inequalities between rich and poor nations and making markets more efficient worldwide (Cohen 2006).

All three approaches may be central to dealing with continuing population growth which will bring the world's population to more than 9 billion within 50 years. Given the continuing growth of the world's population and the inequities between developed and developing economies and the need for labour it is natural to turn to the possibility of using immigrant workforces to replace the aging workforces of developed economies. This also increases opportunities for wage employment for those in developing nations. The key question is: how likely is this and how rational is it as a solution to continuing to grow our economies and solve world economic inequality? What is the evidence from the recent past in terms of the contribution of immigrant populations in North America and especially California? What can we learn from the experience there, which may be relevant for growing the New Zealand economy?

The context in the U.S. and California is perhaps writ larger than in New Zealand but many of the same issues bubble beneath the surface. It is unlikely that New Zealand is a special case, though isolation has played a role in the past and accessibility remains constrained by comparison with many other markets. Certainly, the U.S. is more concerned with total population growth than is New Zealand (the U.S. population is now more than 300 million and is projected to increase to a little less than 400 million before mid century). The U.S. is also affected by a growing undocumented population.

The fact that the U.S. population was a little over 200 million in 1970 and has added more than a 100 million in a little over three decades reiterates the potential impacts of population growth alone for infrastructure and services. The foreign born population is now more than 35 million (55 million foreign born and their native born children) including about 11-12 million undocumented immigrants who are the focus of a
continuing discussion of how to incorporate them in U.S. society more generally. In addition, the general conversation about total numbers tends to mask the very significant changes that are occurring in individual metropolitan areas. In the U.S., as in New Zealand, immigrant outcomes are not distributed evenly across the country, and cities like Los Angeles, New York, Chicago, and San Francisco are homes to very large numbers of new settlers.

It is the absolute growth of the U.S. population that initiated the debates about the ability of the economy and society to provide jobs for both the native and foreign born. The initial celebrations of increasing diversity are now tinged with some anxieties of just how U.S. society as a whole will incorporate and assimilate the continuing flow of newcomers (Clark forthcoming). It is this population and labour force debate which has engaged economists, demographers and geographers, not to mention the media. On the one hand there is an increasing concern with providing workers at both ends of the labour force distribution - service workers to mind the babies in an economy with two workers, and skilled workers to grow the information economy. This suggests the need for a flow of both skilled and unskilled labour to fill jobs and sustain economic growth.

**The Debate about Immigrant Contributions: A Brief Review**

There are strongly held positions about how immigrants affect the economy and especially about whether or not they lower the wages of native born workers. This debate, with Borjas (2003; 2004) and Camarota (2006) on one side and Card (1990) on the other (with many other important writers contributing) is contentious, but it does seem that a consensus view is that the effects on native born wages are small, perhaps a reduction of 40 cents in 10 dollars. These are estimates from Borjas who argues strongly for significant effects of immigrants on native born wages.

A more recent study on the role of immigrants in the U.S. labour market concluded that while the overall impact of immigrants on wages is difficult to quantify, it appears that a flexible labour market will adjust over time to the presence of more foreign born workers, and the market will expand as a result of the new worker influx (Congressional Budget Office 2005). It does appear that if there are wage effects in the American context
it is an effect on the wages of the recent immigrant arrivals rather than the
native born workers. In the New Zealand context Jacques Poot and Bill
Cochrane (2006) completed a thorough review of the extensive literature in
2004 and concluded that there are short run positive impacts on wages and
employment and long run positive effects on migration adaptation and
catch-up. They noted that New Zealand does have one unusual feature of
immigrant intersections with the economy - the extensive and fluctuating
international movement of New Zealanders themselves.

An alternative view is found in Camarota (2006) who uses Census
data to suggest that there are negative impacts of the large-scale flux of
recent immigration, and that the impacts extend to native born workers
generally, as well as to immigrant workers who arrived in previous decades.
His research uses *participation rates* rather than wage effects to show that
young adults, 20 to 24, are most affected by the increase in immigration and
that the negative impacts are greatest for native born black and Hispanic
males compared to their white counterparts (Camarota 2006; Sun,
decline in native born workers with less than a high school education and a
1.8 million decline in those with a high school education only. By contrast,
foreign born workers with less than a high school education, increased their
number in the workforce by nearly 800,000. It is this “substitution” effect
that he uses to argue that there is an impact of immigration on labour force
participation.

In the past and continuing in the current debates, the division has
been between those who base their analysis on specific local studies (Card’s
study of the Cuban Mariel boat lift on Miami, 1990) and those who have
turned to national studies of immigrant labour force impacts. Aydemir and
Borjas (2006) argue that it is only at the national scale that we can measure
the economic impact on immigration because native born workers may
respond to increases in immigration by moving their labour or capital to
regions that are less affected by immigrant supply shocks. Those studies,
which examine change in global gateways, rather than focusing on national
change, argue that the very small reductions in native wages are an
indication of the minor effects of immigration on wages. In contrast those
who focus on national studies argue that a national perspective is needed
because changes in particular localities can miss the impacts of the native
born who migrate away in response to pressure on local wages.
Aydemir and Borjas (2006) extend their arguments with a comparative study of international migration to Canada and the United States, countries with very different immigration policies and quite different immigrant compositions, to show that international migration narrows wage inequality in Canada, because immigrants were disproportionately highly skilled while the opposite is true for the United States where migrants are disproportionately represented in the low skill spectrum of occupations. The lesson from this study is to go for highly skilled immigrants. In the U.S., there was an almost 20 percent decline in the real wage for those who did not complete high school, but an eight percent increase in the real wage of college graduates and a 20 percent increase in the wages of workers with postgraduate education. Thus, immigration played an important role in reducing the real wage of low income workers but had little to do with effects on the upper end of the distribution. It is easy to see how there can be conflicting results in different analyses of immigrant impacts.

Much of the debate about the effects of immigration ends up being a debate about the assumptions that go into estimating the effects of immigrants on wages or indeed on the definitions of impacts. When we talk about immigrant impacts are we speaking of impacts on wages, or impacts on employment and participation? While Borjas and most economists focus on immigrant effects on wages, Camarota and other demographers more often focus on participation and employment rates. It is clear that you can have different effects whether you focus on one measure or another. The effect on wages is, as we have seen, about whether wages are reduced for one or another group. The effect on employment participation is about whether new immigrants are replacing the native born and whether there is increased competition from migrants and associated job loss of the native born.

Recent discussions of wage effects have recently turned to whether immigrants are perfect or imperfect substitutes for U.S. born workers with the same education and experience. Orrenius and Solomon (2006) have revisited the question of immigrant effects on native born wages using a general equilibrium approach. They made two important changes to previous work - they removed the standard assumption that foreign and U.S. born workers are perfect substitutes within the same levels of education and experience, and they introduced a specific analysis of the response of
physical capital to immigration, specifically, that physical capital does respond to immigration. With these adjustments they showed that the long-run average wage of all U.S. born workers experienced a significant increase as a consequence of immigration in the period 1990 to 2004.

If we accept their assumption of imperfect substitutability (an example might be when a Mexican worker with a high school education and a set level of experience does not have a driver’s license but a native born worker does) between U.S. and foreign born workers we have the explanation for the increase in the wages of U.S. born at the expense of a decrease in wages of foreign born workers. Orrenius and Solomon (2006) concluded that the least educated U.S. born workers suffered a wage loss, but that it was much smaller than previously calculated by Borjas. Their work reiterates where we started – generally immigration has small effects on wages, and where there is an effect it is greatest on the earnings of previous immigrants. However, the latter probably have the largest non-economic benefits from the migration of spouses, relatives or friends, and this contributed to making them willing to sustain the low wages and the small gains in wages (Orrenius & Solomon 2006).

Evidence for the Immigrant Contribution

If we examine simple employment growth there is no question that much of the growth in the United States labour force was immigrant driven. Between 1990 and 2005 the employed population increased by about 22 million and nearly half of that growth was from the foreign born population. The foreign born workforce grew from 10.5 million in 1990 to 16 million in 2000 and 20.6 million in 2005 (U.S. Bureau of the Census 2000; 2005). It is now 15 percent of the U.S. workforce. In California foreign born workers make up 34.4 percent of the workforce. The sheer size of the immigrant workforce is a testimony to the expansion of the U.S. economy and its ability to absorb (provide value added) these new workers. If we use these participation numbers alone we have to conclude that immigration has had relatively positive effects on economic growth if only because it provided the labour force for an expanding economy.

The foreign born work across the spectrum of occupations and industries in the United States - the notion of Mexicans as solely agricultural labour has been transformed in the past decade and a half
though there are still many Mexican agricultural workers. Now, nearly a quarter of the foreign born are in managerial and professional occupations and although they are over represented in construction, production (labour) and transportation sectors it is the generality of the occupations which is most notable (Clark 2003). They make up about 11 percent of the construction industry and 14 percent of the manufacturing sector. Within the service and health sectors they have a remarkable presence. Almost 40 percent of the doctors in California are foreign born and you have a one in five chances of being seen by a foreign born nurse. The foreign born share of science and engineering employment is even more dramatic than the overall data on increases in employment. More than a third of all PhDs in the United States are foreign born and 53 percent of PhDs under 45 years of age are foreign born (Freeman 2006). Moreover, the proportion is increasing.

While there is growth in the skilled sector there is a parallel growth in the low skill sector, a growth which is stimulated by the very large number of undocumented workers in the U.S. economy, workers who take up the low end, low wage jobs, the three-D jobs (dirty, dangerous and demanding) of our modern global economy. In Los Angeles there are substantial numbers of undocumented workers in construction, restaurant employment and apparel manufacturing jobs (Clark 1998). They are also important contributors to landscaping, baby care and other service activities. They are in just those jobs that in a globalized economy are neither unionized, nor well-paying, and no longer provide a step in on the ladder of occupational mobility but it is clear that they are finding jobs.

Recent work on labour force participation from the Midlands in England suggests that indeed immigrants are in general participating in such low wage occupations and industries. There were large gaps between migrant and U.K. born workers with the latter earning more, but no evidence was found that migrants dampened wage growth. Indeed, overall immigrants contributed about 9.6 percent to the regional gross value added of the East Midlands economy. A larger portion of this contribution is, as we might expect, from earlier arrivals, but the overall point is that migrants do make a sizeable contribution to growth of the Midlands economy even if they are in the low-end sector.

In any discussion of immigrant contributions it quickly becomes apparent that we are dealing with nested paradoxes, paradoxes which
included substantial numbers of employed immigrants, at the same time as there are stagnant wages and modest income growth for many immigrants and the less educated native born alike, with overall robust economic gains for the nation as a whole. The answers to immigrant outcomes and immigrant contributions are as varied as the methods used to examine immigrant productivity but it does seem that immigrant outcomes may be tied to labour market policies.

**Immigrant Progress and Labour Market Policies**

Some limited research suggests that indeed, immigrant gains are not independent of the host country’s labour market institutions and practices. Obviously some of the poor labour market outcomes of immigrants are attributable to the immigrants themselves, to their education levels, language abilities — in short their human capital - as well as to their family composition, and legal status. But at the same time, it does appear that countries with less restrictive labour regulations seem to provide more opportunities than countries with more restrictive regulations (Orrenius & Solomon 2006). In countries where employers have greater freedom in hiring and firing, and supply and demand play a greater role in terms of employment, wages and benefits seem to generate situations in which economic growth is greater than where centralized wage setting and strict rules about layoffs inhibit the flexibility of businesses. Although there is not yet a great deal of research on the affect of regulations on immigrant outcomes, an OECD study found that union wage setting tends to price the young and elderly out of employment and push them out of the labour force (Jeans 2006).

There is no question that nations intervene in their labour markets. The question of course is the extent of the intervention and the nature of the outcomes. The International Institute for Management Development (IMD) (2004) provides a rating system for the level and the nature of government intervention. In a relatively simple scale from zero to 10 in which high scores represent less regulation, France and Germany are the most regulated economies, while the United States and Canada are amongst the least regulated of a selection of OECD countries (scores tending towards seven). New Zealand is a little on the over regulated side with a score of 3.6.
Orrenius and Solomon (2006) use these scores and the difference between immigrant and native unemployment rates to evaluate the potential for immigrant gains in differently regulated economies. Overall, the relationship is negative, that is more regulated economies have bigger differences between native and immigrant unemployment rates (Figure 2).

**Figure 2: Relationship of employment and IMD score**

Another way of interpreting this finding is to argue that more regulated economies are less open and provide fewer opportunities for immigrant populations. It is true that the relationship is far from perfect, and clearly there are other variables which influence the possibility of immigrant gains, but still it is an intriguing result about where and how immigrants might make greater gains.

A corollary of this analysis is a specific focus on the young native and foreign born. Are they are disproportionately affected by excessive market regulation? Again, the data must be treated with caution but there is a rough parallel between the outcomes for youth and the average analysis discussed above. The limited data that Orrenius and Solomon (2006) provide, suggests that as regulation increases the difference between immigrant and native born youth increases or alternatively, less regulation means a lower differences between native and foreign born youth (Table 1).
# Table 1: Labour market regulation and youth unemployment

<table>
<thead>
<tr>
<th>Country</th>
<th>IMD Score</th>
<th>Native born unemployment</th>
<th>Foreign born unemployment</th>
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</thead>
<tbody>
<tr>
<td>France</td>
<td>2.3</td>
<td>17.8</td>
<td>34.2</td>
</tr>
<tr>
<td>Germany</td>
<td>2.4</td>
<td>10.0</td>
<td>16.3</td>
</tr>
<tr>
<td>Belgium</td>
<td>2.7</td>
<td>17.1</td>
<td>35.9</td>
</tr>
<tr>
<td>Spain</td>
<td>3.3</td>
<td>22.6</td>
<td>22.2</td>
</tr>
<tr>
<td>Greece</td>
<td>3.5</td>
<td>25.0</td>
<td>20.3</td>
</tr>
<tr>
<td>Sweden</td>
<td>3.6</td>
<td>13.1</td>
<td>26.8</td>
</tr>
<tr>
<td>Australia</td>
<td>4.2</td>
<td>12.8</td>
<td>17.0</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>4.7</td>
<td>15.5</td>
<td>15.4</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>5.0</td>
<td>10.5</td>
<td>14.8</td>
</tr>
<tr>
<td>Austria</td>
<td>5.3</td>
<td>7.1</td>
<td>9.7</td>
</tr>
<tr>
<td>Canada</td>
<td>6.5</td>
<td>9.7</td>
<td>14.3</td>
</tr>
<tr>
<td>United States</td>
<td>6.6</td>
<td>12.5</td>
<td>10.7</td>
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In France, the unemployment rate for foreign born youths was 34.2 percent in 2002 - nearly 17 percent higher than native born youth unemployment rates. The differentials are much lower for other countries. However, Spain is significantly more regulated than Canada but has a lower differential. Again there are other factors that go into the formation of the differential outcomes but the link to institutional structures is interesting and worth further analysis. In the U.S. the unemployment ratios were actually lower for foreign born youth than for native born youth, perhaps part of the explanation for high levels of foreign born youthful employment.

Even though the analysis is based on limited cases and is more indicative of a trend than a formal proof of any relationship it does fit into the general argument that labour market policies do have an impact on immigrant labour market outcomes. Immigrants in countries with highly regulated labour markets, have higher unemployment rates than those in labour markets with less regulation. Clearly this is also influenced by the levels of education for the immigrant population, more educated immigrants will be less affected than less educated immigrants, but overall Orrenius and Solomon (2006) concluded that markets where labour is highly regulated,
with union set wages, will price newcomers out of jobs. There is no question that immigrant success is a complex dynamic but we cannot ignore the interactions between immigrants and the labour market and how labour market rigidities affect the progress of immigrants.

A nation’s competitiveness may also play a role in structuring economic outcomes. The competitiveness of people, whether part of a nation, a firm, or as individuals is fundamental in creating wealth (Garelli 2006). The general arguments about competitiveness may intersect with the oft reiterated selectivity of migration; that it is often immigrants with the eagerness to succeed and the willingness to work long hours, at first for low pay, who have “made-it” in their new societies and in turn have been a boost to many economies. But whether in immigrants, or the native born, the competitive instinct is a critical dimension of individual and national success. The world is in constant evolution and it is currently, more open, more online and more transparent than in previous decades.

Once competitiveness was low cost manufacturing but emerging economies are not just competing with cheap manpower but with cheap brainpower as well. India is increasingly recognized for her scientists and Central European nations for the supply of engineers and skilled technicians. Garelli (2006) estimates that there are 33 million university educated young professionals in developing nations compared to only 14 million in developed nations – where they are a lot more expensive. Where is New Zealand in the competitiveness index? Not at the bottom but not at the top either (IMD 2004). In the ranking of 60 nations New Zealand is squarely in the middle.

Clearly, labour market access is a critical component of immigrant success and immigrant economic incorporation. Without relatively easy access to jobs immigrants are blocked from beginning the first steps on the economic ladder and the first steps to making it in their new societies (Clark 2003). Although there are concerns that businesses may be taking advantage of the new immigrants by paying low wages, at the same time these lower wages are the potential first steps on the economic ladder. The unresolved question is whether the economic ladder will be available for the growing stream of new and often undocumented immigrants – an important issue discussed further later in the paper.
Open competitive societies are a central ingredient in the opportunity set for immigrants but not all immigrants arrive legally and can access the formal labour market. There is increasing evidence that the formal economy in the United States may be fragmenting and employers are increasingly turning to contract workers to cut back on benefits and other non-salary compensation. In addition, we know that immigrants with limited education, poor language fluency, and subject to discrimination are likely to end up in jobs outside the formal economy and those who arrive without documentation are the most likely to end up outside the formal economic system.

Current estimates place the total undocumented population in the United States at about 11 to 12 million people and growing at about 500,000–700,000 persons per year. Certainly that number is consistent with an increase in the undocumented population of about 10 million in the last fifteen years. Beginning in 1989, not long after the last amnesty in 1986, there has been a steady growth in the undocumented population. It is estimated that nearly 7.2 million of the unauthorized migrants were employed in the U.S. in March 2005, almost five percent of the civilian labour force. Of course, they were a much greater percentage of particular occupational categories such as household services, retail services and construction as we noted earlier. That most of the immigrant population also works in unskilled occupations is consistent with our knowledge of immigrants who arrive with low levels of completed schooling and few skills.

We can suggest that the growth of the informal economy may be related to the way in which the nation's labour markets are organized. The rise in immigrant employment, especially in marginal and temporary work, has been paralleled by significant changes in the way in which employment is organized in U.S. labour markets. There is an increase in contracted employment and the use of independent consultants and thus these "newly hired" workers are often not on the payrolls of the firms that hired them. Clearly they are not paid employee benefits such as health insurance and pensions or covered for unemployment insurance let alone social security benefits. Working in unregulated jobs of course can also give rise to abuses by employers who fail to respect the basic rights of work – they are
vulnerable and so are the employees. In addition, employers operating in
the informal market short change the social safety net, and perhaps create
an unfair disadvantage for businesses that comply with the law.

The data suggest that the informal economy has grown in the past
decade or decade and a half. The changing patterns of employment show up
in the differences between the employment documented by the U.S. Bureau
of Labour Statistic's Current Employment Statistics survey (CES) and the
Current Population Household survey (CPS). The CES is the basic data
source used by the Bureau of labour statistics to calculate job-generating
performance of the economy. The difference between that and the data from
the CPS is a measure of the self-employed, independent contractors, unpaid
family work, and "off the books" employment.

In general, through a long period, the CPS and the CES have
tracked fairly consistently. Since the mid-90s, and especially since 2000
there have been considerable differences in the reports from the two sources.
The recent assessment shows a slow rate of growth of payroll employment,
and given the strong performance of the nation's economy this suggests that
a lot of the labour productivity is associated with growth in the off-payroll
employment sector. The implications are that large numbers of the new
undocumented immigrant workers are not appearing on the formal payrolls
of their employers. They are either independent contractors or completely
"off the books". The implications for the economy in terms of tax receipts,
and for the nation's labour laws and labour standards are significant. As the
numbers of informal workers increase there is growing pressure on the
relationship between workers and employers with potential negative
outcomes for both the labour community and the larger society. Ultimately
society depends on tax receipts from both employers and employees for
sustaining itself.

A specific analysis of the informal labour market in California
enriches and documents the general statements about the U.S. as a whole
(Flaming, Haydamack & Joassart 2005). A plot of reported employment
from the Current Population Survey (CPS data) and reports of payroll tax
data – that is jobs reported to the state economic services suggests that
there is a growing disconnect between official and unofficial statistics
(Figure 3). The graph shows a growing gap between the number of
residents reporting employment in the survey data, and the number of
residents who are enumerated from the payroll tax data. That gap has been
widening since 1990 and is almost half a million workers currently in Los Angeles County.

Figure 3: Employment estimated from Current Population Survey and Employer Surveys

It is possible that some of the gap is due to reporting issues – for example Los Angeles has high rates of self-employment and these jobs may not be reported in the payroll reporting data but Flaming, Haydamack and Joassart (2005) conclude that the gap between the number of residents who report they are employed and the number of jobs that employers report providing, is not explained by self-employment or by workers who hold multiple jobs. The unreported jobs in official employment statistics are simply because employers hire undocumented workers and fail to report employment. Whether it is to maintain their competitive advantage or simply to increase profits, the outcomes are reduced tax receipts and marginalized workers. It is here that we see a troubling intersection
between undocumented immigration and the organization of the labour market, an intersection which does not support a well structured opportunity set for new immigrants.

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In the absence of documented status, workers accept jobs in the informal sector as a survival strategy. Undocumented workers have lower employment rates and are also likely to have part-time employment which in turn emphasizes their likelihood of being in marginal employment and hints at the likelihood of ending up in the informal sector. There is a clear progression of levels and hours of work based on duration and citizenship status. Workers with higher earnings and more hours were more likely to have arrived earlier that those who came later who, in turn, have lower earnings and greater likelihoods of being unemployed.

One way of illustrating this outcome is to note that immigrants who came to the U.S. since 1991 make up 17 percent of workers earning under $10,000 a year, compared to their 11 percent of the overall labour force (Flaming et al. 2005:10). Unsurprisingly, the undocumented immigrant population ends up in just those jobs which are at the low end of the service sector, in restaurants, or in dangerous and low paid “piece work” in garment manufacturing and fabrication but also in occupations which are hard to regulate like construction (Figure 4). Clearly there are acute economic pressures on recent immigrants who have lower employment rates, lower weekly salaries, uncertain employment and marginal labour force participation.
Undocumented immigration, "overstaying" in New Zealand parlance, has not been a major issue in New Zealand, nor does it appear to be an issue in the labour market. However, in the last few years, undocumented immigrants arriving in Australia have emerged as a possible problem. In the late 1990s, there was evidence that as many as 50,000 people in Australia overstayed student tourist or temporary residence visas (Hugo 1999). Australia may well become the target of people smugglers, who have been active in bringing undocumented immigrants to other regions of the world. We know from other research that undocumented immigration is coupled with legal immigration, so we might well expect increases in the flows of undocumented migrants in association with the legal movements all these populations.

Hugo (1999) suggests that undocumented migration is about to play a much larger role than in the past and by extension we can expect that in New Zealand as well. It is unlikely that the island status of Australia and New Zealand will serve to protect these nations anymore than border fences have protected the United States from increasing undocumented flows. In New Zealand and Australia undocumented migration will likely proceed via increasing numbers of over-stayers, those who come legally in the first instance, but it is also likely that people smuggling will increase. In the end the outcome is likely to be larger numbers of new, illegal immigrants and an increase in the informal economy.

Figure 4: Undocumented employment by industry
Social Change and Social Inclusion – Immigrants and Changing Societies

Until now we have been in the main discussing what Gary Freeman (forthcoming) calls the “money” problem – the impact of immigration on wages, participation and productivity. There are two questions which go beyond the formal money problem. The first is: will the flow of immigrants provide a cushion for the coming dependency problem in OECD countries, will the flows make up for the coming labour shortage in post industrial Europe, North America and Australia and New Zealand? The second is: how will immigrants be incorporated into their new societies? These are substantial and substantive questions, which have complex literatures in their own right, and this review will only cover some selected observations on dependency and social inclusion.

The dependency issue focuses attention on the growing aging populations in European countries like Italy and Spain, currently less of a problem in New Zealand (Figure 5).

Figure 5: Change in the working age population 1950-2050
Clearly, in Italy the several decade long surplus of young workers has now changed to a deficit. It has not yet become a deficit in New Zealand (using slightly different age groups) but there is only modest growth, if any at all, in the productive population. In the long run age dependency will be an issue in all developed societies. Much of the dependency issue revolves around how the surplus will be created to support an aging population. Increasing the retirement age, stimulating fertility and other strategies will become important in working out solutions to the aging populations of developed societies. However, it is unlikely that immigrants will be a realistic substitute for declining fertility and a decreasing workforce.

While Dayton-Johnson et al. (2007) are optimistic about using a North African labour force to supplement a declining workforce in Europe, Camarota (2007) and Demeny (2006) are both quite pessimistic about substituting immigrants as a new workforce in the United States or Europe. The authors suggest that even if there are short-term gains, substituting immigrants will simply postpone the need for the more relevant policies
which will be necessary to address the consequences of demographic change. Most demographers agree that immigration can only be a temporary solution to dependency ratios. Immigrants too get old and need the same services as the native born. Demeny (2006) suggests that the “failings of the European social model, with its existing high unemployment, low labour force participation rates, early retirement age, and inflexible labour markets” will require remedies that “must be administered through domestic institutional reforms that command consensus of the native population. Immigration in all likelihood would provide an excuse to delay tackling that agenda, thus making the timely adoption of the needed reforms less likely (Demeny 2006:40). All the evidence suggests that to solve the dependency problem by immigration – true for New Zealand as for other developed economies - would require levels of immigration that would have to be unsustainable in the long run. Social security and pensions will not be solved with immigration.

Despite the upbeat stories of how immigrants have moved into decaying neighborhoods in the inner cities of American metropolitan areas and restored their vitality, there is also evidence that native born populations move away as immigrants move in. There is indeed evidence that ethnically heterogeneous societies display lower levels of trust and spend less on redistribution programs than more homogeneous societies. We ignore at our peril the large literature on ethnic own race preferences and the myopia of preferences for people like ourselves. While we can ensure that we do not discriminate against one another, and remove the pernicious affects of negative behavior in employment and housing, it is more difficult to engineer residential integration. The long history of households voting with their feet is unlikely to be interrupted by social engineering.

The still emerging literature on the topic of generalized trust is far from unanimous and while some find that generalized trust is negatively related to the ethnic and racial diversity of communities (Hooghe 2005) this may be a function of homogeneous societies. In diverse societies recognition of group differences and identities and group relations rooted in equality-based concepts of reciprocity may be a more meaningful strategy for creating restructured societies. How our societies will play out the mixing that is occurring is far from clear. The literature on multiculturalism is only
one example of our attempts to deal with the mixing problem and there are real questions about the success of multiculturalism (Clark 2008).

Migrant numbers are unlikely to decline in the future. If anything they will increase over time and the issue about immigration and economic growth may raise an important ancillary question - how to manage, and deal with immigration in a rational policy response rather than with either open borders or walls and militarized responses? The question which we must address is how to develop policies that will satisfy both migrants and employers, while satisfying the needs of both labour sending and labour receiving countries (Martin 2005; 2006). A recent position paper on the role of mobility in the European Union raises important questions about just how we can manage immigration (Dayton-Johnson et al. 2007). Clearly an aging European population and neighbouring countries with growing youthful populations in need of employment suggests an orderly, safe, well-regulated migration system (Dayton-Johnson et al. 2007:16).

Indeed, there is a need to rethink the process of migration and the reciprocal relationships between Europe and the new sending countries and Dayton-Johnson et al. (2007) do a good job of evaluating and examining the process and the problems of the new migration into Europe. At the same time, they tend to think in labour market terms and not of the larger issues of societal structures, homogeneity and heterogeneity in terms of ideas and cultures. In the long run the social issues may be more important than whether or not immigrants can provide the labour in aging European societies. There are deep-seated cultural perceptions that rightly or wrongly affect the debates about immigration and immigrants. The perception in industrial countries is often that legal migrants are associated with the welfare and unemployment, and unauthorized migrants are associated with the underground economy lawbreaking and often criminal activity. These perceptions, in turn, exacerbate the potential for xenophobia and discrimination.

What sort of society will immigration bring? Unlike Europe New Zealand is not struggling with issues of the Burkha and the veil. The clash of religions is a sensitive subject and brings the social into the economic realm (a Wal Mart employee in the United States has sued not to have to handle pork at the checkout counter, and Muslim employees in Britain have objected to handling liquor in a similar situation). How will employers deal with immigrant groups who have special religious needs? How it will be
played out is far from clear but it is important to evaluate the complexity of immigration as a whole and not piecemeal – after all with immigrants you get both the labour and the cultural values.

Concluding Observations on Managing Immigration

Immigration is likely to continue at relatively high levels. It shows no sign of decreasing as the global economy shifts and changes, and the gap between developed and less developed nations continues to widen. The pull of opportunities in developed economies will continue to attract immigrants from countries where they are often not well trained and are poorly educated. Still, income differences alone are not an explanation for international migration - it is driven by complex sets of networks, whether through contacts with others who migrated previously or through various forms of recruitment and family ties. We do know that once international migration gets to a certain level, it tends to take on a life of its own. Given that international migration is likely to continue at a world scale, including for countries like Australia and New Zealand, where more than 20 percent of the population is already foreign born, it is a truism that we need a well developed policy on immigration - a policy to provide the labour and manage the immigrant flows of those who arrive.

There is a challenge around the less skilled in the native born workforce and less skilled previous migrants. For New Zealand the issue is the intersection of immigration and Māori employment. Both are often competing for jobs in the low-skilled end of the labour market. The net economic impact of immigration is beneficial to an economy, but what happens at the bottom end of the pay scale and whether immigration generates an informal economy are important policy questions. At least one commission in the United States has suggested that the immigration system be redesigned to allow for temporary, provisional, and permanent streams in such a way that immigrants could be admitted as needed in the labour force, while permanent residence will be based on more stringent requirements including mandatory skill tests and some form of a secure national identity card. These policies are some way from being formulated, but may come sooner than we expect in our increasingly interconnected technology-driven world. Illegal immigration creates security problems, incurs some fiscal costs at least locally, and may create an isolated underclass. Social and
cultural tensions, in the long run, may be the most difficult issues to address when dealing with immigration.

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