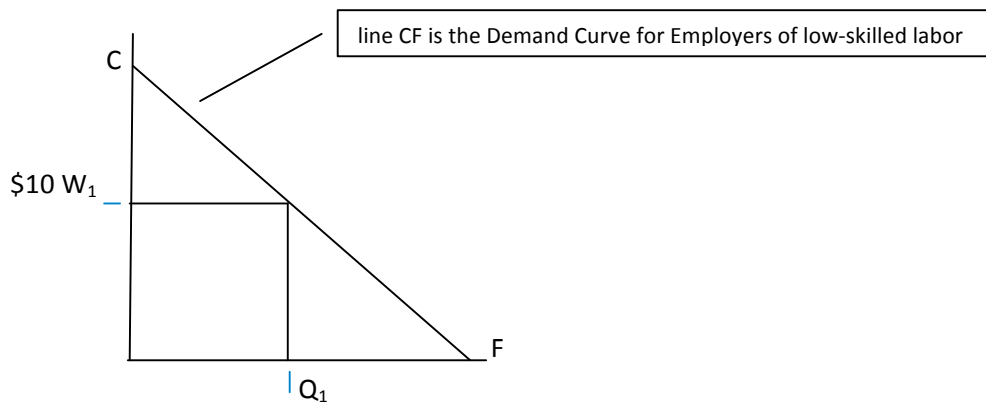


## More Detailed Analysis of 1997 National Research Council Study

We will now follow the analytical framework of the 1997 NRC study to demonstrate that their own study shows: (I) that the high rate of unskilled and low-skilled immigration has depressed wages for American low-skilled labor, and (II) the wages that have been stripped from American workers have largely gone into the pockets of employers and corporate management and shareholders.

### Graph #1: The Labor Market: Supply and Demand Before Immigration

Note: This graph is adapted from Figure 4.1 of the 1997 NRC study.



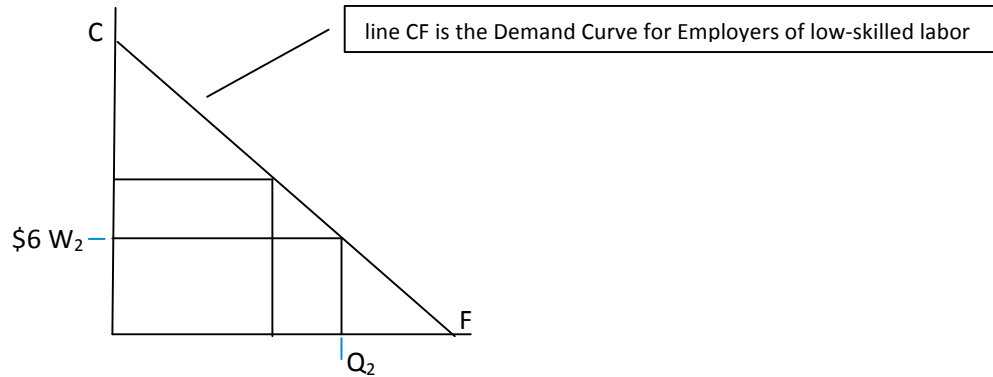
$W_1$  = Wage at time 1 = \$10.00 per hour

$Q_1$  = Quantity of labor demanded at time 1 = 20,000,000 workers

Before the high low-skilled immigration, 20 million workers got \$10 per hour each, which means the entire low-skilled work force earned \$200 million per hour. We could figure out how much the low-skilled U.S. labor force earned in one year, but it is simpler just to stick with the \$200 million figure. Note: This graph is taken from Figure 4.1 of the 1997 NRC study.

Graph #2: The Labor Market: Supply and Demand After Immigration

Note: This graph is adapted from Figure 4.1 of the 1997 NRC study.



$W_2$  = Wage at time 2 (after high amount of low-skilled immigration) = \$6 per hour

$Q_2$  = Quantity of labor demanded at time 2 = 27,000,000 workers

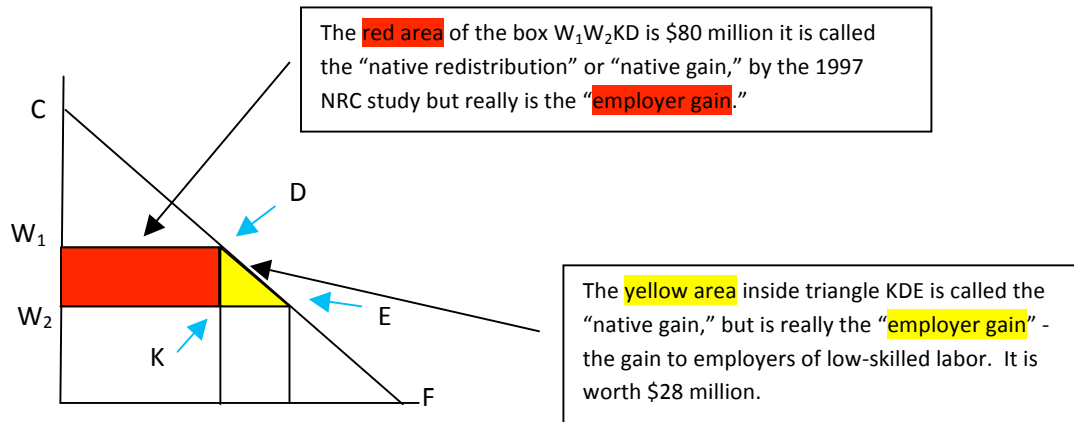
After the high amount of low-skilled immigration, 27 million workers got \$6 each per hour, which means the entire low-skilled work force earned \$162 million. After immigration, there was *less* money, and *more* workers shared it.

It's as if the United States said to its poorest and most vulnerable workers, "you are required to share your income with some foreigners." Do you think that the United States' low-skilled workers voted for or wanted high amounts of low-skilled immigration? Absolutely not.

Who directly benefitted from low-skilled immigration? Not society as a whole. It was those who employ low-skilled labor. Look at Graph #3:

Graph #3: The Labor Market After Immigration: Gains to Employers

Note: Adapted from Figure 4.1 of the 1997 NRC study



The red area of the box  $W_1W_2KD$  is the \$4 per hour lower wage, which is  $W_1 - W_2$ , multiplied by the domestic low-skilled workforce of 20 million (which is line  $W_2K$ ) and that results in a figure of \$80 million. \$80 million (per hour) has been stripped away from the domestic low skilled workforce due to immigration.

Who directly gets this money? Employers. That is because line  $CF$  is the employer demand curve- it represents the wage employers are willing to pay for any given quantity of labor. Before immigration, employers had to pay \$10 per hour for 20 million workers. Their cost was \$200 million. Now they get to pay \$6 per hour for that same 20 million. Their new cost is \$120 million. It results in a savings of \$80 million for the employers.

Note that the 1997 NRC study is inaccurate here. The study calls the red area "native redistribution." That makes it seem like the entire United States gets \$80 million directly. Not so. The *employers* of low-skilled labor get that \$80 million directly.

Next, we analyze the yellow area of the graph, triangle  $KDE$ . The study says that this area is the "native gain," in other words the gain to U.S. society, from the low-skilled immigrant labor. There is a quantity of labor, 7 million low-skilled immigrant workers, represented by line  $KE$ . The employers would have been willing to pay from \$10 to \$6.01 per hour for each extra step to the 7 million extra workers (shown by line  $DE$ ), but the employers only have to pay \$6 an hour for the full 7 million- an incredible bargain for them! So the workers take home their \$6 an hour, and the yellow area is the employer gain from hiring them. The yellow triangle  $KDE$  is worth a specific amount of money. Line  $KD$  is \$4, and Line  $KE$  is 7 million, and if we multiply those, we would get a rectangle worth \$28 million. But we are looking at a triangle of  $\frac{1}{2}$  the area of the rectangle, so triangle  $KDE$  is worth \$14 million.

The 1997 NRC study calls this \$14 triangle KDE the “native gain.” Once again that is inaccurate. The graph represents the demand of employers and supply of low-skilled labor. If the low-skilled labor gets paid less, the employers are the ones who reap the gain. So the \$14 million in triangle KDE should be called “employer gain.”

Advocates of high immigration claim that the rest of society does benefit from the money that employers gain. The reasoning is that the employers spend their money in the U.S. economy, and the spending works its way through the economy, so that eventually all of U.S. society benefits. But what about the fact that American low-skilled workers have had \$4 per hour ripped from their paychecks? That is a morally questionable situation. Money has been taken from our most vulnerable workers and handed to employers and immigrants. Furthermore, this is “trickle-down economics” a la Ronald Reagan: the direct employer gain eventually “trickles down” to the rest of society. Half of the advocates of high immigration are left-wing Democrats who vociferously reject the notion of trickle-down economics. According to the 1997 NRC study’s own terms, we have a policy of a high amount of low-skilled immigration. This is government policy taking money from the working class and giving it to the employer class with the promise that it trickles back down to the people we took it from. But American workers still have to deal with the \$4 per hour wage loss.

How much of the “employer gain” trickles down to the rest of society? Not as much as you might think.

## **Taxes**

You might think that some of this extra money going to the employer class will be taxed away and thereby redistributed to the rest of society. But the wealthy do not pay their fair share of taxes.

In 2006, Senator Byron Dorgan said on the Senate floor “One of the world's richest people told me the other day [probably Warren Buffet] when I was talking with him that he pays a lower income tax rate than the receptionist in his office.” (Source: Congressional Record, United States Senate, April 5, 2006, page S2876).

The highest-earning 1% of Americans collected 22% of the nation’s income in 2006, compared to 15.2% in 1988. That 2006 level is thought to be the highest in 80 years, although changes in measuring income make it difficult to know for sure. Meanwhile, even though the top tax brackets are 33% and 35%, the average tax rate of these top earners was 22.8% in 2006, compared to 28.9% in 1996 and 24% in 1998. So the high earners were collecting a lot more income, but were paying taxes at a lower rate because of their ability to hire advisors to shield their income from the tax collector. (Source: Jesse Drucker, Richest Americans See Their Income Share Grow, The Wall Street Journal, July 23, 2008, p. A3.)

Those making more than \$200,000 saw their incomes increase 7 percent between 2002 and 2004, while their income tax DECREASED by nearly 9 percent for those making between \$200,000 - \$500,000 and decreased by more than 19 percent for those with incomes of more than \$10 million. (Source: Media

Matters For America, July 17, 2006, "On NewsHour, WSJ's Moore Misled on Wealthy Americans' Tax Burden." [Accessed here](#) on 3/17/2009).

### **The United States Does Not Have Competitive Markets**

It used to be that you could purchase a computer from any one of dozens of vendors, including a custom-built machine from your local computer shop. There were, in effect, thousands of vendors. This was a competitive market characterized by constantly falling prices. Today, you are pretty much limited to Apple, Dell, Sony, Gateway, or Hewlett-Packard. Compaq is now owned by Hewlett-Packard. Gateway now owns e-Machines. Further consolidation is occurring. The result is that prices for computers have stopped falling. Just as computer makers do not pass cost-savings onto consumers because it is not a fully competitive market, so it goes in most industries that the cost savings from high immigration are not fully passed onto consumers.

**Oligopolistic competition**—In economics class, we learn about "perfect competition" in which markets are characterized by thousands of sellers who compete with each other on price. If one seller can lower its costs, it lowers the price of its goods or services in order to gain a competitive advantage over the other sellers. In a perfectly competitive market, lower costs get passed on to consumers.

In the United States, most markets are not perfectly competitive. The majority of markets for goods and service are in a state of "oligopolistic competition." "Oligopolistic" means "characterized by few sellers." In most markets, only 3 or 4 major sellers exist, and they do not have to respond to lower costs by lowering their prices, as they would in perfectly competitive markets.

So much of the gain from lower wages caused by high immigration is captured by the owners of businesses or by corporations as increased profit. From there business owners keep it as increased income, and corporate management pays it to itself as bonuses, or returns it to shareholders as dividends, but shareholders tend to be wealthier than the average American. While some 56 million American households do own stock, that is only 50% of all households, and most of these households don't own much stock.

For an example, think of a company that provides food preparation services to a college campus. The company bids for a 3 year contract. Only 1 or 2 other large companies bid on the same contract. The company wins the bid, and then notices it can hire immigrants at lower wages than U.S. citizens. The company hires immigrants and lowers its labor costs, but it does not have to give any money back under the contract- the company just gets higher profits on the contract. Let's say that during the bidding process, all the bidders realize they can hire immigrant labor and use that to lower their bids in the hoping of winning the contract based on a low bid. However, there are only a few bidders and nobody lowers their bid all the way down to the full amount of money they are saving in labor costs- the winning bid still sees increased profits due to the use of immigrant labor. And the continued yearly influx of over 1.5 million new workers means a yearly increase in the number of workers—an increase in supply

that puts downward pressure on wages. So whatever price the winning bid was at--- the company can lower wages or at least not increase them during the multi-year contract.

**American High Skilled Workers Must Also Be Experiencing Wage Pressure Due to Immigration**

It is now 2009, and we can look back at the 1997 study and note something ghastly. What the 1997 study predicted would happen to low-skilled American workers has actually happened to almost ALL American workers. Things have not turned out so rosy for the “high skilled” natives as the 1997 NRC study believed they would when it promised a “native gain” and “native redistribution” from low-skilled immigration.

Even before 1997, there has also been a large amount of high-skilled immigration into the United States, and it must logically follow that this immigration has held down or eroded the wages of high-skilled American workers. In good times, it holds down wage increases. In a recession, the high immigration causes wages to fall and most probably displaces Americans from jobs.

For example, we know that in fiscal year 2007, the Department of Homeland Security issued a total of 854,186 employment authorization documents (a longer name for “work visa”). However, only approximately 177,000 work visas were issued to low-skilled foreign workers. The rest, some 677,000 were probably issued to people who had some degree of skill. In addition, the United States granted over 1 million Green Cards in 2007, all of which comes with the right to work in the United States. So probably some 1 million skilled workers are being admitted each year.

**Low-Skilled Worker Visas in 2007**

**Skilled Worker Visas**

H-2A Visa = 51,000	H-1B = 78,000 but double
H-2B Visa = 66,000	or triple are presumed to have been admitted see below
H-2R Visa = 60,000	L-1 = 59,000
	TN = 52,000+
	F-1 OPT stage = 57,000
Total low-skilled: 177,000	Total Skilled: 246,000

**Green Cards**

1 million+ yearly
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The 78,000 H-1B visas we know the U.S. issued does not include H-1Bs who work for “institutions of higher education or a related or affiliated nonprofit entity, ... a nonprofit research organization, or a governmental research organization.” Such people are exempt from the cap. How can we figure out

the true number of H-1Bs? In FY 2005, despite there being an 85,000 cap<sup>1</sup> on the number of H-1B visas, a total of **266,474 visa petitions** were approved. Given the value of a permit to work in the U.S., all visas approved are presumed to be used. The 266,474 number must include the visas that were exempt from the cap.<sup>2</sup> There is no reason it is any different in the year 2007. See U.S. Dept. of Homeland Security, USCIS, Report on H-1B Petitions, Fiscal Year 2005, Annual Report, Issued April, 2006.

The point is that while we can only specifically identify 246,000 skilled worker visas that were issued in 2007, we know that 677,000 work visas were issued to other than low-skilled persons. That leaves 400,000 visas in an “unknown” category. At least another 200,000 of those visas were probably H-1Bs exempt from the cap. It is probable that for the remaining 200,000, at least some were to skilled workers who will compete with skilled Americans for jobs. And none of this is counting the skilled workers who were among the 1 million+ persons granted Green Cards in 2007.

### **The End Result:**

#### **Employers Have Gained From High Immigration while ALL American Workers Have LOST**

The effect of the large amount of high-skilled immigration has been very highly similar to the effect of low-skilled immigration. Figure 4.1 in the 1997 NRC study, and graphs 1,2 and 3 in this summary logically apply just as much to high skilled immigration as they do to low skilled immigration. High skilled workers have faced a larger supply for workers, which has resulted in lower wages than would otherwise have been the case. Employers have directly benefitted as a result.

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<sup>1</sup> 85,000 cap: *USCIS Implements H-1b Visa Reform Act Of 2004; Announces New H-1b Procedures For FY 2005 And FY 2006*, U.S. Consulate of Chennai, Press Release, dated 5/5/2005.

[<http://chennai.usconsulate.gov/prind050505.html>]

<sup>2</sup> USCIS Report on H-1B Petitions Fiscal Year 2005 Annual Report, issued April, 2006. Available on USCIS website. The 2005 report says that 267,131 petitions were approved, and 266,474 were actually granted alien status. That less than .1% of the approved visas were not actually used makes sense.