Whether intentionally or not, many who subscribe to restrictionist views today ignore the largely positive economic data about immigrants. Laying the blame for unemployment levels and the fiscal crises in our local governments and schools on immigrants is hard to resist. To restrictionists, the source of these problems is easily identified: too many immigrants cross our borders, take our jobs, and sap our coffers. And the solution seems easy: enact restrictive laws that increase border patrols, that complicate the lives of the undocumented who are already here, that reduce or halt legal immigration, and that block legal immigrants from receiving public benefits. Seems simple enough. After all, fewer undocumenteds mean less job competition, less strain on local economies, and relief for our budgetary crises.

Unfortunately, things just aren’t that simple. Certainly, we hear anecdotes of immigrants displacing natives from jobs, depressing wages, and increasing the need for public welfare-related services. But beyond the fact that the evidence with which to accuse immigrants of hurting
the economy is simply not there, we really should ask ourselves whether restrictive immigration policies mask the actual, more complex questions about how labor markets and fiscal policies stimulate the movement of people. In fact, the story of immigrants' impact on our economy is much brighter than proponents of restrictive immigration policies advance, and, as we have seen in the previous chapters, a strong case can be made that immigrants, documented and undocumented, improve the economy. In short, we should analyze and understand why people relocate and how jobs are created and lost before we start pointing fingers.

Until we can understand the real causes of our fears about job loss and public bankruptcy, we cannot evaluate immigrants' actual collective role in our economy. In this chapter I raise some preliminary points on economic issues in the hope of placing the immigration debate in proper perspective. Since California seems to be the hotbed for most of the anti-immigrant fervor today, I begin by examining the genesis of such hostility: its shaken economy and strained budget. I examine the loss of jobs that the country experienced in recent years and the globalization of the economy as the probable cause. Finally, I counter arguments from immigration opponents who say that like Japan, we can operate our economy quite well without immigrant workers.

The California Economy

The economic situation in California has been used to foment anti-immigrant hysteria. During the first half of the 1990s, the state endured a monumental fiscal crisis and its worst recession since the Great Depression. Throughout this period a state budget deficit persisted, and from 1990 to 1993, California lost more than half a million jobs. Anti-immigrant sentiment was bolstered by these economic woes. Many restrictionists, including Governor Pete Wilson who was facing an uphill battle for re-election in 1994, blamed immigrants for much of the crisis. His views on the costs of immigrants and his advocacy for the overwhelmingly popular Proposition 187 propelled Wilson into the governor's house for a second term.

While the California economy is changing, the anti-immigrant rhetoric is not. Opponents of immigrants continue to blame immigrants for job losses and budget problems in spite of reports that jobs lost during the recession will soon be recovered, the unemployment rate is falling,
state revenues are expected to produce a $1 billion surplus in 1996, sales of homes are on the rise, and Wall Street rating agencies have raised the state’s bond rating for the first time since the 1990 recession began. For some, the economic argument is simply an excuse for social and racial complaints that they have about immigrants, invoking whatever plausible argument they can against immigrants. Others who have relied upon economic concerns in good faith might begin to rethink their position in light of the more positive economic picture. But they may continue to cling to the economic complaint because what may be rosy to economists has not translated into better schools, job security, better wages, and better city services in their day-to-day lives.

However, even the casual, thoughtful observer might have some questions about the relevance of blaming immigrants. After all, with the effects of the Proposition 13 taxpayer revolt still lingering, the highly publicized cutbacks in defense industry contracts still stinging, and the sluggish economy across the nation—even in places that have few immigrants—one might wonder whether the accusatory rhetoric leveled at immigrants for California’s economic difficulties is a bit overblown.

THE EFFECTS OF PUBLIC DISINVESTMENT

An analysis of the state’s economy by the Center on Budget and Policy Priorities provides us with a better understanding of the true origins of the state’s current fiscal crisis. In the 1950s and 1960s, the state of California and its local governments made substantial investments in public services by creating an outstanding elementary and secondary school system and developing other infrastructure projects. These actions provided a solid foundation for economic growth, a good quality of life, and a wonderful image as a state in which to live or operate a business. But since 1970, when the state began to scale back on public spending, many of these advantages have been squandered.

The depth of California’s investments in the 1950s and 1960s may have temporarily hidden the results of the public disinvestment after 1970, but now the adverse effects of disinvestment are becoming increasingly apparent. In 1992, the California Business Roundtable pointed out that low public sector investment in general impedes private sector productivity growth.

More specifically, California has failed to make adequate infrastructural investments over the past thirty years. Today, Californians must
make do with an infrastructure—roads, bridges, sewers, other utilities, and schools—that ranks in the bottom third of the states. The recent fiscal crisis has derailed plans (such as the State Transportation Improvement Project) to rebuild portions of the infrastructure pursuant to 1990 voter initiatives.

Plumbing the origins of the state’s fiscal crisis may present a chicken-or-egg problem: which came first, a depressed economy or the decrease in public spending? Regardless of the answer, economists and business leaders agree that the impact of Proposition 13 on local government revenue has affected the overall quality of life in California, which in turn has damaged economic growth. Local governments play an important function in affecting people’s quality of life—for example, with regard to public safety, roads and parks, libraries, cultural facilities, and health care to the indigent. Because of Proposition 13, county property tax and general purpose revenues were lower in fiscal year 1988–89 than in fiscal year 1977–78, even though the state’s population rose 27 percent during that period. City revenues per person were 17.5 percent lower in 1987–88 than in 1977–78. Although most of the reduction in city revenues resulted from a decline in federal aid, California cities could not readily replace lost federal funds because of Propositions 13’s restrictions on their revenue-raising ability.

At the same time, local governments have become overburdened. In 1983, the state transferred the responsibility for serving medically indigent adults to the counties. In 1989–90, state funds to counties for defraying these costs covered less than 60 percent of the total. Actions to close state budget deficits during the recent fiscal crisis also shifted the burden of funding education to local governments. From 1992 to 1994, about $4 billion in property tax revenues was shifted permanently from counties and cities to school and community college districts. But new local government revenue sources replaced less than half the property tax revenues lost in those two years.

TAXING AND SPENDING POLICIES THAT CRIPPLE

Botched tax policies and uncontrolled hidden spending create a major hurdle to the state’s ability to return to adequate levels of investment and social support. These problems include poorly controlled spending buried in the tax code, which has lowered the revenues available for
other priorities; a sales tax limited to tangible goods that covers a shrinking proportion of consumption; and a property tax, hampered by Proposition 13, that will not allow counties and cities to compensate for cuts in federal and state funding.

First, the state assembly has increasingly relied on spending programs that operate through the tax code, often referred to as “tax expenditures.” They are the least scrutinized portion of the state’s budget, even though their effects on both the state budget and the recipients of the expenditures are equivalent to other spending programs. For example, when the state provides a subsidy in the form of a tax credit to parents who pay for child care, it has the same effect as giving parents a check for that amount of money. These tax expenditures are a significant share of state spending. In 1992, when general fund expenditures were more than $43 billion, another $20 billion was spent through tax expenditures—more than the combined general fund spending on the Department of Education ($16.4 billion) and the Department of Corrections ($2.4 billion).

Yet tax expenditures are rarely viewed by policymakers as spending programs that merely substitute for on-budget programs provided for in the state’s budget. In fact, attempts to reduce spending through the tax code are considered tax increases, while proposals to increase spending through tax expenditures are presented as tax cuts. This is particularly important considering California’s supermajority requirement for raising taxes. While a simple majority is needed to institute a tax expenditure, reducing or eliminating an inefficient or ineffective tax expenditure is considered a tax increase and requires a two-thirds vote. Thus, initiating these spending programs is far easier than limiting them. Further, unlike direct spending programs, tax expenditures are not scrutinized annually or compared with on-budget spending to determine whether they are an efficient use of scarce resources. A tax expenditure that begins to fail the test of good policy is far less likely to be changed than a similar on-budget spending item.

Partly for these reasons, California’s tax expenditures have grown rapidly, even during the recent fiscal crisis when policymakers held overall spending to a low rate of growth. While on-budget general fund spending grew at an average annual rate of 4.1 percent between fiscal years 1985–86 and 1993–94, spending through personal and corporate income tax codes grew at an estimated annual rate of 7.8 percent. Had
tax expenditures been held to the rate of growth of on-budget spending since 1986, California would have had an additional $4.2 billion to spend in 1993–94.

As a result, California maintains a number of tax expenditures that assist, directly and indirectly, middle-class and wealthy taxpayers. For example, the deduction for mortgage interest is widely viewed as an appropriate way to help families improve their living conditions through home ownership. Four million state tax filers benefit from this deduction. But in 1990, more than one-third of the $2.5 billion annual subsidy—or about $850 million—went to the 4 percent of California taxpayers with incomes above $100,000. Also, California completely excludes Social Security payments from taxation, regardless of the recipient’s income. The state loses approximately $200 million annually by not following the federal rule requiring higher-income recipients to pay tax on some of their benefits. Yet another example: although California effectively imposes no taxes on inheritance, it forgoes $200 million annually in taxes by allowing heirs permanently to avoid capital gains taxes on the increase in the value of assets before they were inherited, no matter how large the estate.4

A second overarching problem is that state taxes are unresponsive to economic growth, changes in population, and federal policy. Two problems are particularly serious. One is the shift from a production to a service economy, which has resulted in weak sales tax growth in states such as California that tax primarily tangible goods. The other is the decline in the role of the property tax, which has forced state and local governments to rely on less stable and more regressive taxes as well as other revenue sources, such as user fees. Californians have lost billions of dollars in revenue because of the dual weaknesses in the sales and property tax, coupled with the high rate of growth in spending through the tax code. In fiscal year 1993–94, the revenue loss totaled roughly $10 billion.

In a healthy tax system, sales tax revenues should grow with the consumption of retail goods and services, without changes in the sales tax rate. But in California, the growth of sales tax revenue has lagged significantly behind the growth in personal income; during the 1980s, personal income in the state grew at 8.6 percent per year, but sales tax revenue grew 7.4 percent per year—a full percentage point behind personal income growth. This significant gap is largely because the sales tax applies only to a narrow—and declining—segment of total
consumption, namely, tangible goods, to the exclusion of most services. Between 1960 and 1990, the share of national consumption devoted to durable and nondurable goods other than food dropped from 34 percent to 29 percent, while the share of consumption devoted to services rose from 26 percent to 40 percent. California applies the sales tax to just nineteen services, placing it forty-third among states in this regard.

In 1978, when California residents enacted Proposition 13, they reduced the state's reliance on the property tax for financing local government services and schools; property tax revenues were cut in half. In the late 1970s, California raised $55 in property tax for every $1,000 in personal income. By 1990, the figure was $30. During the same period, the share of state and local taxes represented by property taxes fell from 40 percent to 27 percent. In a study of the effective 1992 residential tax rate—average property tax liability as a percentage of the full market value of property—in the largest city in each state, California was last in the nation. The state will not be able to rely on new construction to bolster property taxes because real estate activity has dropped significantly, and a solid rebound is not expected for some time.\(^5\)

Much is made of the so-called economic impact that immigrant children have on the education budget in places such as California. But as noted in chapter 5, the fairer way of looking at these costs is as an investment in human capital that is repaid over the lifetime of the individual who actually becomes a net, working contributor to society. The calculation of schooling costs has been misleading in terms of public capital expenditures as well. The more accurate way of explaining the state's education budget woes is by revisiting matters such as Proposition 13. Although the decline of the educational budget in California was prompted by a variety of factors, the passage of Proposition 13 marked an even sharper decline. California, which was once one of the five highest states in spending per pupil, with high student performance, now ranks fortieth in spending per pupil, and student performance has dropped. California taxpayers pay only half the amount that New York and New Jersey pay per pupil.\(^6\)

Thus, California's systemic fiscal problems have little to do with the influx of immigrants. Indeed, given the results of the various labor market and cost studies highlighted in chapters 4 and 5, a strong case can be made that immigrants have helped to ease the state's fiscal problems by contributing taxes, stimulating the economy, and providing a cheap, largely complementary workforce.
Understanding the Loss of Jobs

Meet Craig Miller. He was a sheet-metal worker for TWA making $15.65 an hour. Financially troubled, the airline laid Mr. Miller off in the summer of 1992. When he began to search for another job, he quickly learned the market value of a blue-collar worker with a strong back and a good work ethic but few special skills: about $5 an hour. Now this thirty-seven-year-old works behind the counter at McDonald’s and drives a school bus part-time.

Craig Miller is not alone. For whatever reason—global competition, mechanization, specialization, consumer attitudes, marketing techniques, military spending, or inventive management styles—the U.S. workforce has undergone substantial change even in the last two decades. Although the economy is growing and American companies are prospering, job cuts are more numerous than ever. Competition between one another, rather than with immigrants, is the real difficulty. Many American companies have become as efficient and modern as those in Japan and Germany, but several forces have emerged that continue to push corporations to shed workers. Advances in technology enable companies to produce much more with fewer employees. Price increases are hard to secure, and corporate America increasingly maintains profits by slicing labor costs. Finally, workforce reduction has become fashionable—the mark of a good manager. A typical headline reads, “Sara Lee to trim work force by 6%,” in a story highlighting the layoffs of some eight to nine thousand employees in the corporation’s worldwide workforce. The layoffs for this food and personal products conglomerate occurred in spite of “record annual sales and earnings.” The Wall Street response? Sara Lee’s stock went up.7 Downsizing is not viewed as an economic problem by the powers-that-be, but rather as “part of an ongoing restructuring that is in some senses healthy for the economy.” 8

A number of factors account for the job loss. For the aerospace industry, the dual impetus for layoffs was continuing military cutbacks and reductions in orders from troubled commercial airlines. In the telecommunications field, sharper competition for market share caused significant discounting; labor cuts have helped the companies maintain profits. And overall, endless modernization helped corporate America produce substantially more than people can buy.

In the 1980s, the last era of job shedding, Rust Belt factories closed
or modernized so companies could make the same number of cars, steel, appliances, machinery, and other products with a fraction of the old workforce. Over 6 million jobs were lost in 1994 and 1995, and the number of manufacturing jobs alone fell 8.3 percent from 1989 through February 1994. The reason: manufacturing jobs are influenced by technology, and every six years the number of product assembly workers needed is cut in half thanks to new technology. As advances in technology have reduced jobs, tens of thousands of others have moved abroad.9

At the same time, more jobs are actually being added; recent headlines even cheer the increase in jobs. Until about 1950, the migration was from the farms to the new “job multiplier” industries: railroads, automobiles, highway construction, aircraft manufacturing, and airlines. Now, the migration is to the service sector—retailing, health care, restaurants, finance, security, and similar jobs. These are the job-multiplier industries in late-twentieth-century America and they have, in fact, created enough jobs during the last decade or so to more than offset the cutbacks. In 1993, despite the cutbacks, 2 million people were added to the nation’s total workforce. So to some, the layoffs and downsizing are not job cutbacks, but job “dislocation” — the dislocation being the time it takes a worker laid off from AT&T, for example, to find a new job, quite likely at lower pay. Over 200,000 jobs a month were being added in 1996.10

But the increases in job opportunities are deceptive. Despite lower unemployment—the Labor Department said that the jobless rate dropped to 5.3 percent by mid-1996—the dramatic restructuring of U.S. business has made for major changes in the job market. Work is more specialized, information is harder to come by, employers are smaller and exceedingly cautious about hiring. In most places, home builders cannot find carpenters, trucking lines scramble for drivers, mortgage bankers scrape to hire loan processors, but this is misleading. Although total employment might increase by 230,000 in a single month, many of these new jobs are temporary; moreover, eight million people are out of work, and many more can expect pink slips in the near future. Specialized training requirements and hard-to-find occupational niches complicate the job search. For example, three-quarters of new jobs in the late 1980s were at plants with fewer than five hundred workers. New service jobs are widely dispersed as well. Those mid-sized employers are more likely to occupy obscure suburban business parks than to blaze their names.
atop skyscrapers. Divining exactly what niche a company fills means looking at trade magazines, reading the business section of the local paper and, most of all, asking around.\textsuperscript{11}

Thus, the economy's response to employment data can be puzzling and counterintuitive. As the Sara Lee example illustrates, in today's highly integrated global marketplace, economies can grow in size, company profits can soar, a stock market can rise, and yet many people can be unemployed or underemployed. Capital and technology are so mobile that they do not always create good jobs in their own backyard. In the middle of 1996, the nation's unemployment rate fell to 5.3 percent, the lowest level in six years. But this meant that the Federal Reserve would likely start raising interest rates to ward off inflationary pressures; economists believed that the Fed would worry that tight labor markets would trigger rising wage demands and higher prices. In response, the Dow Jones Industrial Average was down 113 points on the day the low unemployment rate was announced.\textsuperscript{12}

The United States' unemployment and wage figures illustrate that we have made different choices than our industrialized peers. Broadly speaking, Europe and Canada have managed to keep wages and benefits rising for their workers, but at the price of relatively high unemployment for many who are sustained with generous unemployment insurance. The United States, which has been out of recession the longest, created many more jobs than Europe, but only by getting workers to take more low-paying jobs, thereby widening the gap between highest-paid and lowest-paid workers.

In the United States the unemployment rate currently holds at under 6 percent, during a booming economic recovery, while in Canada and Western Europe, it averages around 11 percent, with Spain topping the list at 23 percent, and Japan at a comfortable unemployment level of 2.9 percent. But that does not include many workers who are kept in make-work jobs as part of Japan's lifetime employment policies. Meanwhile, total compensation—wages, health benefits, vacations—for the typical American manufacturing worker has declined slightly or remained flat since the mid-1970s, while in Europe and Japan it has increased by 40 percent. In general, countries with higher unemployment sustain higher wages. Minimum wage levels tend to be higher in Europe, with cost of living increases and at least four-week annual vacations virtually guaranteed. Average manufacturing compensation in Germany is $26 an hour, while in the United States it is $16. Europe has comfortable social
safety nets, which have left many workers preferring to stay on welfare rather than take the sort of low-paying jobs accepted by many workers in the United States. In most of the European Union, an unemployed worker can receive close to $1,000 a month indefinitely. But the Europeans and Japanese have done a much better job of developing apprenticeship and training programs for those between the ages of thirteen and seventeen who are not going to college. To former Secretary of Labor Robert Reich, the issue is whether “we [are] condemned to choose between more jobs but greater inequality and insecurity, as we have in this country, or better jobs, but higher unemployment and a thicker social safety net, as in Europe.”

The stratification of jobs in the United States means that those with a high school diploma are still stuck with low-end jobs. In Memphis, Tennessee, for example, at one time a high school graduate could secure a job with a $12– or $13–hourly wage at International Harvester or Firestone Tire and Rubber. But those companies have departed, leaving behind fast growing, lower-wage industries. Federal Express is now the biggest employer in town, and offers high school graduates twenty-hour-a-week jobs for $8 an hour. As a result of these types of changes, most high school graduates who plan to go straight to work are offered the same low wages, the same part-time hours and the same assignments in the restaurants, supermarkets, motels, and gasoline stations where they worked in after-school jobs as students. Nationwide in 1993, a quarter of high school graduates who did not go on to college and wanted to work were still unemployed in October, compared with 21 percent in the 1980s and 16 percent in the 1970s. Adjusted for inflation, the starting pay for people with degrees from four-year colleges has slipped a bit in two decades, but wages have plunged 25 to 30 percent for men with only high school diplomas and 15 to 18 percent for women in that category.

In sum, the nation’s economy is producing 2 million new jobs a year, but they come with wages typically below $8 an hour, or about $16,000 a year, and without health benefits, opportunity for promotion, or promises that the jobs will last.

Students have increasingly responded by going to college and vocational schools, although the current economy does not assure them job security. In 1993, almost two-thirds of high school graduates entered two- or four-year colleges, compared with only half in 1980. But the growth of low-paid, low-skilled jobs outpaces the growth of higher-
skilled jobs in fields like health care and data processing. At the same time, industry is eliminating middle-management jobs held by college graduates, and those laid-off college graduates compete for blue-collar jobs, in turn displacing high school graduates.\textsuperscript{15}

In short, U.S. industry shows systemic weaknesses, rooted in outdated, short-sighted modes of managing human resources that hamper the ability of many firms to adapt to a changing international business environment. In particular, the MIT Commission on Industrial Productivity has observed six weaknesses: outdated strategies; neglect of human resources; failure of cooperation; technological weaknesses in development and production; government and industry working at cross-purposes; and short time horizons.\textsuperscript{16}

Today's skewed and inflexible job market grew out of forty years of industry practice. In the 1950s and 1960s American industry pursued flexibility by hiring and firing workers who had limited skills rather than by relying on multiskilled workers. Worker responsibility and input progressively narrowed, and management tended to treat workers as a cost to be controlled, not as an asset to be developed. Likewise with training: workers often receive limited training while on the job, typically amounting to watching a colleague at work. Even in firms offering organized training programs, in-plant training is usually short and highly focused on transmitting specific, narrow skills for immediate application. In other countries one finds a greater inclination to regard firms as learning institutions, where, through education and training, employees can develop breadth and flexibility in their skills, and acquire a willingness to learn new skills over the long term. In a system once based on the mass production of standard goods where cost mattered more than quality, the neglect of human resources by companies may have been compatible with good economic performance; today, this strategy plays a major part of the United States' productivity and concomitant employment problem.

Fortunately, not all industries in all locations create low-wage jobs. Although Jackson, Tennessee struggled through the 1980s with factory closures, its job market is now so tight that when a new faucet plant was proposed, the company extracted a promise from the chamber of commerce not to solicit new companies for half a year. A local factory-equipment company increased salaries for machinists 15 percent in 1994 to $15.62 an hour. The local bank created additional full-time teller
positions paying $8 or more an hour; part-timers had been receiving $6. Across the nation, service sector wages may be a low $315 per week, but companies in Jackson are hiring heavily in the $575-a-week range, especially the computer literate.\textsuperscript{17}

The neglect of human resources in the United States actually begins long before young Americans enter the workforce and has little to do with immigrants. In primary and secondary school they learn the fundamental skills they will apply throughout life: reading, writing, and problem solving. Yet cross-national research on educational achievement shows American children falling further and further behind children in other societies in mathematics, science, and language attainment as they progress through school. The school system, from kindergarten through high school, is leaving large numbers of its graduates without basic skills. Unless the nation begins to remedy these inadequacies in education, real progress in improving the country’s productive performance will remain elusive.\textsuperscript{18}

**GLOBAL EFFECT OF INTERNATIONALIZATION OF THE ECONOMY**

In defending his daring package of almost $50 billion in U.S. and international loan guarantees to rescue the Mexican economy in 1995, President Clinton explained what was at stake: “thousands of [U.S.] jobs,” “billions of dollars of American exports,” and “the potential of an even more serious illegal immigration problem.”\textsuperscript{19} His reasoning was based on what economists have come to understand—that an evolving global economy and trade and monetary policies may affect the movement of people far beyond the control of immigration policy.

Viewing the flow of immigrants and immigration restrictions in terms of trade and trade theory has many implications. Appreciating the emerging world economy assists us in understanding the flow of immigrants, as well as their role in the labor market. Circumstances and events in other parts of the world and the United States’ role on the world stage are also relevant to understanding why people move to the United States. Shifts in the volume and direction of labor flows result more from the restructuring of international markets than from changes in domestic unemployment or production demands, or changes in immi-
The structure of the U.S. economy and labor market also influences the demand for labor and the characteristics of workers who are attracted at different times.

The postwar history of the Del Monte fruit and vegetable processing company illustrates the wide-ranging effects of internationalization and its impact on local labor markets. Once a California-based business, by the early 1950s Del Monte had established major processing plants in fourteen states. Over the next decade, in anticipation of growing world demand, plants were also established in Canada, Italy, Brazil, Mexico, Costa Rica, Ecuador, Venezuela, Kenya, and South Africa. Changes in taste at home and uncertainties abroad prompted the company to develop new product lines and branch out into transportation services. By 1973, fewer than half the company's total sales came from domestically canned output, and the company was divesting itself of its unprofitable plants in this country. Correspondingly, domestic workers lost their jobs.20

The trends in the fruit and vegetable industry also illustrate how international competition influences jobs. Over the years, consumer tastes have changed in favor of fresh produce and frozen vegetables (rather than cannery-produced goods), and U.S.-owned operations in Mexico have taken over much of that market. Under present farm-labor practices, the cost of growing broccoli in California squares poorly against that in Mexico and Guatemala (15 cents per pound, compared with 5 to 6 cents). Local California canneries' profits have disappeared.21 This has led to concessionary cuts in wages and benefits, eroding work conditions, and many closings. Between 1977 and 1986, 32 plants employing 23,000 workers closed. Ultimately, the price of produce in the field, rather than cannery labor, will decide the fate of the industry in California.

Agriculture is relevant to migration in a number of ways. In places such as California the industry continues to depend heavily on immigrant workers. But what happens in places like Mexico is important as well. In most Third World countries, peasants produce food for the nation, and rich farmers produce exports. In Mexico, the most fertile land is being used to produce exports. If agriculture were to collapse in Mexico, for example because of new competition from the United States, this could lead to a push for migration out of Mexico. This would lead to a workforce problem in Mexico and only exacerbate the local Mexican agricultural problem.22
Global competition and trade policies also have implications for the movement of peoples across borders and to other jobs. The go-go 1980s once masked unease over America's changed economic position. Now, in a time of massive layoffs that threaten to continue even as the overall economy improves, trade has become the focus of a debate on whether the United States is turning into a society of economic have-s and have-nots. For example, the completion of the Uruguay round of the General Agreement on Tariffs and Trade (GATT) in December 1993 extended free trade principles to services, meaning more access to foreign markets for U.S. banks and telecommunications companies. But the changes may come at a price. Just as NAFTA is likely to chip away at low-paying U.S. manufacturing jobs, so too GATT is expected to hurt industries like apparel, where U.S. goods will be forced to compete with a growing flood of cheap imports. Thus, the AFL-CIO has concerns about GATT that parallel its concerns about NAFTA. But GATT may result in more jobs in the exporting countries, easing emigration pressures.

International copyright agreements are another example. In return for agreeing to tough copyright protection and a more open climate for services, Asian countries have successfully pushed for concessions in another agreement, the multibar agreement, which restricts U.S. imports of textiles and clothing from developing countries. Labor believes that the phaseout of these restrictions is also likely to cost American jobs.

The first quarter report after NAFTA became effective began to shed some light on how trade policies influence jobs, and in turn immigration patterns. To the surprise of many economists and trade experts, imports from Mexico grew more rapidly than U.S. exports, cutting the U.S. trade surplus with Mexico for this period in half. U.S. labor leaders viewed this development as a threat to U.S. jobs, but the then U.S. trade representative, Mickey Kantor, believed the increase in trade would mean that jobs would be created. Many economists think that both nations are likely to gain jobs from increased trade. The clear message to emerge is that while some jobs are lost, others are helped or created. For example, Allied Signal (Autolite spark plugs), Texas Instruments, and General Motors have already demonstrated substantial gains and plan to increase their U.S. workforce.

NAFTA has revealed other complexities of job creation. Within two years after NAFTA was put in place, Key Tronic Corporation, a manufacturer of computer keyboards in Spokane, Washington, laid off
277 workers and moved the jobs to a plant in Mexico, where wages were a fourth less. But the decreased manufacturing costs enabled the company to lower prices and win new orders; since keyboard component parts came from plants near Spokane, overall employment in the area actually increased. Exports to Mexico of many agricultural products, like lettuce and peaches, have risen since NAFTA lowered tariffs on many of those commodities. Lettuce was cheaper to produce in California using Mexican labor than in Mexico. But reservations about NAFTA persist, as the agreement places downward pressure on American wages and reduces jobs without providing sufficient help for displaced workers. According to the U.S. Department of Labor, by the beginning of 1996 about 60,000 were lost due to NAFTA, but 140,000 new jobs were created.\textsuperscript{26}

Much is made of jobs being lost because of plant relocations abroad. These moves are commonly attributed to the supply of exploitable, low-wage workers abroad. But the National Research Council reports that increasingly U.S. manufacturers move abroad primarily to gain access to new markets, manufacturing processes, technologies, and components. Yes, in the 1970s and 1980s, many U.S. companies moved facilities overseas to take advantage of low wages, but these were mainly simple assembly operations. Today’s high-tech, automatic manufacturing depends much less on human labor. AT&T has been producing consumer telephones in Singapore since 1984, but a recent study attributed the operation’s success more to lower material costs than to cheaper wages. Moreover, foreign companies have been relocating here, thus belying the argument that U.S. labor costs are prohibitively high: examining automobile, consumer electronics, and semiconductor industries, researchers found that Japanese automakers have actually moved to North America and Europe in order to respond more quickly to market changes and consumer demand. For example, Toshiba began producing color picture tubes in New York in 1985 mainly to gain closer access to the U.S. market, and structured the plant to be its least costly operation.

The United States is not too expensive for manufacturing. Higher wages may be a factor, but our country offers features that companies most desire, including a large market of affluent consumers, skilled workers, a strong technological base, and a tradition of innovation. Unfortunately, not all U.S. manufacturers have learned to take advantage of these assets. Many have not adapted to a world in which quality, flexibility, and speed are essential. These failures put American jobs at
risk. With broader vision, the United States can attract industry here, and our available workers can be an asset.27

The Johnston Tombigbee Furniture Manufacturing Company in Columbus, Mississippi serves as an example of globalization harnessed to help U.S. workers. The company entered into an agreement with a Chinese factory which quoted prices for chairs that were two-thirds lower than what it was paying in countries like Brazil. For Johnston Tombigbee, the cheap labor and materials in China are the backbone of an expansion strategy. Its furniture is made mostly of foreign parts. Seven years ago, the company faced collapse because of family warfare and weak management. But it has turned itself around through foreign manufacturing agreements, and many production jobs in its Mississippi operations have been saved.28

Just as many American industries and jobs may hinge on the globalization of the economy, the United States can influence economic conditions abroad through import restrictions, foreign aid, and debt repayment subsidies, as well as by supporting reforms in the policies of the World Bank and the International Monetary Fund. For example, the World Bank and the IMF contend that structural adjustment policies—including trade liberalization, devaluation, removal of government subsidies and price controls, “cost recovery” in health and education, privatization, credit squeezes, and increased interest rates—will reduce poverty by restoring economic growth. Critics argue, however, that the programs are in fact designed to meet the needs of industrialized countries by ensuring debt repayment and encouraging Third World countries to export cheap raw materials. Many nongovernmental organizations charge that structural adjustment programs imposed by the World Bank and the IMF have brought disaster to the working poor of perhaps a hundred countries.29 These economic policies, which are often ignored in discussions of immigration policy, partly determine America’s allure in the immigration market and influence the movement of migrants.

WE ARE NOT JAPAN

In response to pro-immigrant arguments that immigrants—especially low-wage, low-skilled workers—are necessary to our economy, restrictionists such as Peter Brimelow offer Japan as the counterexample of a
country that has achieved economic viability without immigrant workers.

The factor is the explanation for the great counter-factual episode hanging like the sword of Damocles over contemporary pro-immigration polemics: the success of Japan since WWII. Despite its population of only 125 million and virtually no immigration at all, Japan has grown into the second largest economy on earth. The Japanese seem to have been able to substitute capital for labor, in the shape of factory robots. And they have apparently steadily reconfigured their economy, concentrating on high value added production, exporting low skilled jobs to factories in nearby cheap-labor countries rather than importing the low-skilled labor to Japan.30

In other words, we do not need immigrants because Japan does not need immigrants.

Brimelow correctly points out that labor and capital are often substitutable. However, he fails to appreciate the consequences of this relationship. Any increase in labor can be offset by a change in technological progress that makes the current labor force more productive. But innovation is simply one factor of production. Firms presumably find the correct mix of inputs to maximize profits and minimize costs. Thus, suppose an employer were to become disenchanted with the labor intensity of her apple growing business, and she wanted to “innovate” in a way that would allow her to reduce her total labor bill. She might invent a robot that could replicate the functions of a worker, or she might invent a device that one worker could use which would make him as productive as two.

The first thing to consider is what happens to her demand for labor. The result is not clear. Indeed, if the apple grower chooses the second option, the addition of the device is complementary to the use of labor, and it increases each employee’s marginal product. Since it is profit maximizing for the firm to hire labor up to the point where the real wage just equals the marginal product of the last employee-hour, this may result in an increase rather than a decrease in labor demand.31 Second, although substituting other factors for labor is possible, this does not mean that doing so is optimal. In any given case, the cost of capital innovations may exceed the labor savings that result.

In this respect, Japan may be quite different from the United States. The prevailing view among economists is that capital innovations are
more likely to be optimal in Japan because it has historically had lower capital costs than the United States (as manifested in the prevailing interest rate). As such, investing may be optimal for Japanese business in industries where it may be suboptimal for the United States to do so. Furthermore, the cost of capital in Japan may in fact not be lower in the long term.\textsuperscript{32}

Certainly, the cost of capital is important, but other factors are also of consequence to the long-term capital investment decisions of firms in Japan or the United States. The nature of the institutions that influence the supply of capital may affect investment decisions at least as much as the cost of capital.

A large and growing share of the capital of U.S. firms is owned by mutual funds and pension funds, which hold assets in the form of a market basket of securities. The actual equity holders, the clients of the funds, are far removed from managerial decision making. The fund managers also have no long-term loyalty to the corporations in which they invest and have no representation on their boards. (Indeed, legislation prohibits their participation in corporate planning.) Although some fund managers do invest for the long term, most turn over their stock holdings rapidly in an effort to maximize the current value of their investment portfolio, since this is the main criterion against which their own performance is judged. Firms respond to this financial environment by maximizing their short-term profit, in the belief that investment policies oriented toward the long term will be undervalued by the market and thus render them vulnerable to a takeover. At the same time, senior executives are motivated to maintain a steady growth in earnings by their own profit-related bonus plans and stock options. A chief executive whose compensation is a strong function of her company’s financial performance in the current year will naturally stress short-term results. Explanations that cite the cost of capital and the sources of financing all tend to depict corporate managers as victims of circumstances, forced by external conditions into a short-term mind-set. Yet one can argue that executive ranks have come to be dominated by individuals who know too little about their firm’s products, markets, and production processes, and who rely instead on quantifiable short-term financial criteria. These modern executives are more likely to engage in restructuring to bolster profits than to take risks on technological innovation.\textsuperscript{33}

Beyond cost-of-capital issues, Japan has traditionally not faced many export barriers in sending intermediate goods to be assembled
abroad (despite Japan's significant import barriers). Thus, in this sense, offshore assembly substitutes for immigrant labor. High export barriers (e.g., into Mexico) have partially kept the United States from being able to utilize the same potential advantages of specializing domestically in capital/skill intensive production. GATT and NAFTA become relevant in this regard.

The problem with discussing these issues as though Japan does not use immigrant workers is that the assumption is not true. Foreign workers started to flood into Japan in the mid-1980s, when Japan suffered serious labor shortages. Immigrants, eager to earn salaries that were "astronomical" compared to what they were earning back home, availed themselves of thousands of jobs in bars, restaurants, small factories, and construction. In spite of a recession, the demand for foreign labor in Japan has not eased. Employers have difficulty finding native workers to take low-paying and physically taxing work at construction sites and in factories. Many foreign workers do not have proper visas, and the Japanese labor ministry estimated the presence of 280,000 undocumented workers in 1993, mostly from the Philippines, Thailand, Pakistan, Sri Lanka, Bangladesh, and the Middle East.34

Japan has finally recognized its need for immigrant workers. Like South Korea, Hong Kong, Taiwan, Singapore, and Malaysia, Japan is a country short of labor which has experienced a steady and perceptible flow of unskilled foreign workers. Interestingly, the flow of undocumented workers into Japan continues to grow in spite of stringent amendments to Japanese immigration laws in 1990. Legal immigration of 114,000 foreign workers occurred in the first year after the changes, while another 150,000 second- or third-generation Japanese arrived from South America. Recognizing the need for these workers, the Japanese government proposed a technical job training program for foreign workers, permitting unskilled foreign workers to reside in Japan for up to two years. Today, foreign workers are viewed by some Japanese opinion leaders as a "labor-saving investment" that would complement native workers and make it easier for women and older people to enter and stay in the Japanese workforce.35

Comparing the world-renowned Japanese automobile industry with that in the United States and Europe is also instructive on the question of whether the Japanese have it right and we are wrong. The Japanese "lean" production system is highly extolled. Among the key elements are "continual improvement, teamwork, elimination of waste, and effi-
cient use of resources, all bound together by a communication system that extends from the design center, research lab, factory and suppliers to the dealer and customer.” But the system has very real technical, organizational, political, economic, environmental, and social constraints. In the North American and European plants where the system has been transplanted, direct conflicts with political forces and social values in many Western countries have surfaced. Predictably, personnel and legal problems have increased.

For example, Detroit is learning what Japan learned early on from its American transplant experience: the lean system is a linear, mass production system designed for long continuous production runs, and does not perform well in such highly cyclical economies as North America. And Japan itself is experiencing a backlash from its lean system: a serious labor shortage has fomented labor unrest and demands for improved working conditions on assembly lines. Moreover, the labor shortage is allowing Japanese youth to be more selective in their job search. Assembly-line jobs in the automobile industries are particularly shunned as “3K” workplaces: Kitanai (dirty), Kiken (dangerous), and Kitsui (difficult). The Japanese auto industry, faced with this growing national resistance to 3K assembly-line jobs, is increasingly resorting to hiring foreign workers. Sociopolitical and environmental resistance to the lean system’s drain on human and natural resources has also emerged. The Japanese are bemoaning the lean system’s stressful and wasteful short model cycle and its street-congesting and polluting “just-in-time” distribution system. As a result, great changes are needed in the lean system in order to survive in the highly competitive global automobile industry.

The Japanese economic system has other characteristics that the United States may not wish to emulate. For example, Japan’s retail system is decidedly proproducer at the expense of consumers. Japanese-made goods are expensive, even domestically. Clothes cost twice as much in Tokyo as in New York, food about three times as much, and gasoline about two and a half times more. In essence, Japanese policies protect producers in a way that penalizes consumers. When competition in Europe or the United States pushes down the price of VCRs, cars, and semiconductor chips, Japanese producers still maintain high prices within Japan. In effect, producers wring monopoly profits out of their own people in order to build a war chest for competition overseas. When the yen doubled in value against the dollar from 1985 to 1988,
retail prices in Japan should have fallen significantly—but they barely
budded. Japanese corporations were taxing their own people with artifi-
cially high prices so that they could maintain artificially low prices in
export markets in Europe and North America. In return for this tax, the
Japanese people receive strong organizations and full employment. This
may not be an attractive bargain from the Western viewpoint, and no
individual Japanese likes paying higher prices. But the public supports
this social bargain in order to keep the nation's producers strong and the
nation prosperous. 38

Unlike the U.S. and European models, Japanese workers have for
several decades traded artificially low wages for the promise of full
employment. The wages are artificially low because throughout much of
the postwar era, earnings have lagged behind the increase in corporate
productivity. By Western economic logic, wages should have risen much
more rapidly. Similarly, Japanese corporations have traded artificially
low profits for their equivalent of full employment, which is an ever
growing market share. In 1991, a business survey listed the thirty most
profitable large companies in the world. Twenty-three of them were
American, four were British, and none were Japanese. The belief is that
inconvenience to consumers is less damaging in the long run than the
weakness of a nation's productive base. 39

In short, we are not Japan. And we may not want to be.