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Who Gains from Undocumented Labor? Wage Effects, Firm Benefits, and Consumer Prices across Low-Skilled U.S. Sectors

Jiuyan Qiu[a]

The Ohio State University, Financial Mathematics & Economics, Columbus, Ohio, 43210, United States

[a]qiu.727@buckeyemail.osu.edu

Abstract

This paper examines who benefits more from undocumented labor in the United States: firms or consumers. Rather than focusing only on wage effects, the paper compares three labor-intensive sectors-agriculture, meat processing, and construction-to analyze how gains are distributed across the economy. The study uses a comparative sector approach and evaluates two key mechanisms: labor substitution and cost pass-through. Evidence from labor-force composition, enforcement shocks, market concentration, and pricing structures is used to assess how undocumented labor affects production costs, firm profits, and consumer prices. The findings suggest that agriculture provides the greatest relative benefits to consumers because labor stability supports food supply and reduces price pressure. Meat processing benefits firms more than consumers due to industry concentration, while construction provides the largest relative gains to firms and contractors because project-based pricing limits consumer pass-through. The paper concludes that the economic effects of undocumented labor differ significantly across sectors and should be evaluated through sector-specific analysis rather than broad national averages.

Keywords

Undocumented Labor; Labor Substitution; Cost Pass-Through; Immigration Economics; Low-Skilled Industries.

1. Introduction

Most debates about undocumented labor in the United States start with the same question: does it lower wages for native-born workers? That question matters, but it does not fully answer who actually gains from undocumented labor. Undocumented workers are not spread evenly across the economy. They are concentrated in specific low-skilled and labor-intensive sectors, especially agriculture, meat processing, and construction. Because these sectors use labor differently and sell their output in different types of markets, the effects of undocumented labor should not be expected to look the same everywhere.

The central question in this paper is more specific: when undocumented labor reduces labor costs or helps firms maintain production, who receives more of the benefit, firms or consumers? I compare agriculture, meat processing, and construction because each sector relies on manual labor, but each has a different labor market and price-setting structure. Agriculture relies heavily on seasonal crop labor. Meat processing depends on plant-level production lines that can be disrupted quickly when workers are removed. Construction depends on project-based work, contracts, subcontractors, and negotiated prices.

The argument is that the distribution of gains depends on two mechanisms. The first is labor substitution: undocumented workers create the strongest wage pressure for workers who perform similar tasks in the same sector and local labor market. The second is cost pass-

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through: consumers benefit only when lower labor costs or more stable production are reflected in final prices or supply stability. These two mechanisms lead to different outcomes by sector. Agriculture is closest to shared gains because labor stability can affect food supply and consumer price pressure. Meat processing benefits firms more because immigrant labor is important to production, but the industry is concentrated. Construction gives the largest relative share to firms and contractors because final prices are project-based and less transparent.

The paper therefore does not try to estimate exact dollar gains. Instead, it uses a comparative sector approach. Evidence on undocumented or immigrant labor concentration, high- and low-exposure comparisons, enforcement shocks, market concentration, and price transparency is used to rank the likely distribution of gains across sectors. The rest of the paper proceeds as follows: Sections 2 and 3 lay out the sector background and the labor-substitution/cost-pass-through framework, Sections 4 and 5 describe the comparative approach and evidence, and Sections 6 and 7 analyze the sector ranking and conclude.

2. Background and Sector Context

Undocumented labor matters most where firms rely on low-skill, manual, and difficult-to-replace work. Agriculture, meat processing, and construction are useful cases because all three use this type of labor, but the organization of work is different in each sector. That difference matters because a similar labor-cost change can affect wages, firm profits, and consumer prices in very different ways.

Agriculture relies on seasonal crop work such as planting, harvesting, sorting, and packing. These jobs are physically demanding, time-sensitive, and tied to specific locations. If farms cannot find enough workers at the right time, crops may be harvested late, left unharvested, or processed less efficiently. For that reason, undocumented and immigrant labor in agriculture affects both firm costs and the stability of food supply.

Meat processing is organized around plants and production lines. A plant needs enough workers on site to run near normal capacity, so a sudden loss of workers can reduce output quickly. This makes meat processing especially useful for studying enforcement shocks, such as workplace raids, because the loss of labor can be connected directly to production disruption.

Construction differs from the other two sectors because final prices are usually project-based and negotiated. A construction price reflects labor, materials, subcontracting, timing, location, design, and contract type. Buyers usually cannot observe whether lower labor costs are passed through. As a result, labor savings may raise contractor or subcontractor margins without clearly lowering the final price paid by buyers.

3. Theoretical Framework

3.1. Labor Substitution: Who Competes with Undocumented Workers?

Undocumented labor can lower wages only when undocumented workers are close substitutes for other workers in the same labor market. The closest substitutes are not all native-born workers. They are workers with similar education levels, similar tasks, and similar local labor-market positions. Borjas [1] shows that immigration can affect wages through competition within comparable skill groups, while Ottaviano and Peri [2] show that immigrants and native-born workers are not always perfect substitutes. The wage effect therefore depends on who is actually competing for the same jobs, not simply on whether a worker is native-born or foreign-born.

In agriculture, the closest substitutes are legal immigrant farmworkers and low-skill workers performing similar crop tasks. USDA ERS reports that 42 percent of hired crop farmworkers

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lacked work authorization in 2020–2022, while 19 percent were other authorized immigrants and 7 percent were naturalized citizens [3]. These numbers show that unauthorized and authorized immigrant workers are part of the same crop labor pool, so wage pressure is most likely to fall on workers doing similar farm tasks.

In meat processing, the closest substitutes are legal immigrants and low-skill native-born workers in entry-level production jobs. In construction, substitution is broader because tasks vary by project, but the relevant substitutes are still workers doing similar manual construction tasks in the same local market. This means the expected wage pressure is concentrated among close substitutes within particular sectors and regions rather than spread equally across all native-born workers.

3.2. Cost Pass-Through: Do Consumers Benefit from Lower Labor Costs?

Lower labor costs do not automatically become lower consumer prices. Pass-through measures how much of a marginal cost change is reflected in final prices. On the supply side, undocumented labor can lower marginal cost if labor is an important input. On the demand side, price elasticity, market concentration, and price transparency affect whether firms pass savings to consumers or keep a larger share as profit. Food cost pass-through is also not uniform because wholesale and retail prices do not always move one-for-one [4].

This point directly matters for the paper's ranking. A sector should have a higher consumer share when labor-cost changes are visible in final prices, the product is relatively standardized, and firms face stronger competition. A sector should have a higher firm share when the industry is concentrated, demand is less elastic, or final prices are negotiated and difficult for consumers to compare. In other words, pass-through is not only a supply-side issue. It depends on both cost changes and market conditions.

Based on this framework, agriculture is expected to have the strongest consumer channel because food supply is visible and disruptions can create price pressure, even though pass-through is not complete. Meat processing is expected to have a moderate consumer channel because immigrant labor is essential to output, but concentration gives firms more power to retain savings. Construction is expected to have the weakest consumer channel because prices are project-based, negotiated, and less transparent.

3.3. Demand Elasticity and Pass-Through Conditions.

For this reason, this paper treats demand elasticity as part of the broader pass-through mechanism. A sector with more transparent prices and stronger competition is more likely to pass some labor-cost savings to consumers. A sector with concentrated firms, negotiated prices, or subcontracting layers is more likely to allow firms to retain a larger share of the benefit.

4. Comparative Approach

The paper uses a comparative sector approach rather than a national regression. This method is appropriate because the main question is not whether undocumented labor has one average effect across the entire economy. The question is why the distribution of gains differs across sectors with different labor needs and different price-setting structures.

The comparison has three steps. First, I measure labor exposure. When direct undocumented-status data are available, I use them. When they are not available, I use foreign-born, immigrant, or noncitizen shares as proxies because undocumented status is often not directly observed in public datasets. Second, I identify the closest substitute workers in each sector. Third, I evaluate how gains are divided between firms and consumers by comparing labor intensity, market competition, demand elasticity, concentration, and price transparency.

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This method cannot produce exact causal estimates or exact dollar amounts. Its purpose is to make a disciplined relative comparison. The expected ranking is based on the interaction between labor exposure and pass-through. A sector with high labor exposure but low pass-through will generate a larger firm share. A sector with high labor exposure and more visible consumer price effects will generate a larger consumer share. This is why the final ranking predicts the highest relative consumer share in agriculture, a medium consumer share in meat processing, and the lowest consumer share in construction.

5. Evidence and Data

5.1. Labor Exposure and High-Low Comparisons.

Agriculture provides the clearest direct evidence of undocumented labor exposure. USDA ERS reports that 42 percent of hired crop farmworkers lacked work authorization in 2020–2022, compared with 32 percent who were U.S.-born [3]. The Center for Migration Studies estimates that there are about 283,000 undocumented agricultural workers in the United States and that 74 percent are located in five states: California, Washington, Florida, Texas, and Oregon [5]. This is not a perfect wage-share comparison across regions, but it is a strong high-exposure versus lower-exposure proxy because undocumented agricultural labor is highly concentrated in a small number of states.

Meat processing also shows high immigrant labor exposure. The American Immigration Council reports that 45.4 percent of meatpacking workers were foreign-born, compared with 17.4 percent across all industries. It also reports that meatpacking job postings increased by 86.4 percent from 2017 to 2021, which suggests labor shortage and replacement difficulty [6]. Stuesse and Dollar [7] provide a more direct high-low comparison within related food-processing work: in the top five meatpacking states, 56.1 percent of workers were foreign-born, compared with 28.1 percent in the top five poultry states. This shows that meatpacking is immigrant-intensive not only compared with the overall labor market, but also compared with another food-processing sector.

Construction is also exposed to undocumented and immigrant labor, although the consumer price channel is weaker. Passel and Cohn [8] report that 16 percent of unauthorized immigrant workers were employed in construction in 2014, compared with 6 percent of U.S.-born workers and 6 percent of lawful immigrant workers. NAHB reports that foreign-born workers made up 26.3 percent of the construction workforce in 2024 and about one-third of construction trades [9]. These figures show that immigrant labor matters for construction labor supply, but they do not by themselves prove that consumers receive large price benefits. The price-setting structure must also be considered.

Table 1 connects the labor-exposure evidence to the paper's sector ranking. Agriculture has the clearest direct undocumented-status data, with 42 percent of hired crop farmworkers lacking work authorization in 2020–2022. The concentration of 74 percent of undocumented agricultural workers in five states is not a perfect regional wage-share comparison, but it provides a useful high-exposure versus lower-exposure proxy. Meat processing also shows strong exposure because the foreign-born share is much higher than the economy-wide average and is especially high in top meatpacking states. Construction has substantial immigrant and undocumented labor exposure, but this evidence mainly supports the labor-supply side of the argument. Whether consumers benefit depends more on the project-based pricing structure discussed below. It is worth noting that these sources span nearly a decade, from 2016 to 2025, so the underlying labor-force composition may have shifted since publication due to enforcement policy changes, economic cycles, and evolving migration patterns; the sector ranking in this paper should therefore be read as a relative, illustrative comparison rather than as a precise current snapshot.

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Table 1. Labor Exposure and High-Low Comparison by Sector

Sector / Measure	Value
Agriculture	
Hired crop farmworkers without work authorization, 2020–2022	42%
U.S.-born hired crop farmworkers, 2020–2022	32%
Estimated undocumented agricultural workers in the United States	About 283,000
California share of undocumented agricultural workers	49%
Top five states combined / remaining states combined	74% / 26%
Meat Processing	
Foreign-born share of meatpacking workers	45.40%
Foreign-born share across all industries	17.40%
Foreign-born share in top five meatpacking states	56.10%
Foreign-born share in top five poultry states	28.10%
Increase in meatpacking job postings, 2017–2021	86.40%
Construction	
Unauthorized immigrant workers employed in construction, 2014	16%
U.S.-born and lawful immigrant workers employed in construction, 2014	6% each
Foreign-born share of total construction workforce, 2024	26.30%
Foreign-born share of construction trades, 2024	About one-third

Source: [3, 5, 6, 7, 8, 9].

5.2. Enforcement Shocks and Market Structure.

Enforcement shocks are useful because they show what happens when immigrant or undocumented labor is suddenly removed from production. In 2025, ICE detained about 74 to 76 workers out of roughly 140 employees at Glenn Valley Foods in Omaha. After the raid, the plant was left with about 30 percent of its workforce, and production fell to about 20 percent of normal capacity [10]. This evidence is stronger than minimum wage evidence for this paper because it directly changes the available labor supply in an immigrant-intensive sector and shows the immediate production effect.

Market structure explains why the gains do not pass to consumers equally. USDA ERS reports that the four largest meatpackers handled 85 percent of steer and heifer purchases and 67 percent of hog purchases [11]. This concentration gives processors more ability to keep cost savings. In construction, the key issue is low price transparency. Projects differ by location, design, materials, subcontracting, contract type, and negotiation, so buyers cannot easily observe whether labor savings are passed through.

Table 2 shows why enforcement shocks and market structure matter for the distribution of gains. The Glenn Valley Foods raid is useful because it directly reduced available labor and immediately lowered production capacity. This supports the claim that immigrant labor creates a direct production benefit for firms and an indirect supply-stability benefit for consumers. However, the meatpacking concentration evidence shows why consumers may not receive the full benefit of lower labor costs. When a few large firms control a large share of purchases, firms have more ability to retain savings rather than fully passing them through to prices.

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Table 2. Enforcement Shock and Pass-Through Evidence

Measure	Value
Workers detained at Glenn Valley Foods	74–76 out of about 140
Approximate share of workforce detained	About 53–54%
Workforce remaining after raid	About 30%
Production after raid	About 20% of normal capacity
Immigrant share of U.S. meatpacking workers	More than half
Four largest firms' share of steer and heifer purchases	85%
Four largest firms' share of hog purchases	67%
Construction pricing structure	Project-based and contract-specific

Source: [10, 11]. Construction pricing structure is included as a sector-level analytical comparison.

6. Analysis and Results

6.1. Agriculture: Shared Gains.

Agriculture has the highest relative consumer share. The reason is the combination of high undocumented labor exposure, geographic concentration, and more price-transparent food markets. Firms gain because undocumented labor helps maintain a stable workforce and lowers labor costs. Consumers gain because crop labor stability helps maintain food supply and reduces price pressure. Pass-through is not complete, since retail food prices include processing, transportation, packaging, and retail costs. Still, compared with meat processing and construction, agriculture has the strongest consumer-side channel. The evidence therefore supports agriculture as the sector with the strongest consumer channel, not because consumers receive all labor-cost savings, but because labor stability is most directly connected to visible food supply and price pressure.

6.2. Meat Processing: Firms Gain More.

Meat processing has a medium consumer share. The sector depends heavily on immigrant labor, and the Glenn Valley Foods raid shows that this labor is hard to replace in the short run. Consumers benefit because stable labor supply helps prevent output disruptions. However, firms likely gain more because meatpacking is concentrated. With four large firms handling most steer, heifer, and hog purchases, processors can retain a larger share of labor cost savings instead of fully passing them through to consumers. This makes meat processing a more firm-dominant sector: immigrant labor is essential to production, but market concentration limits how much of the benefit reaches consumers through prices.

6.3. Construction: Firms Capture the Largest Share.

Construction has the lowest consumer share and the highest firm share. Immigrant and undocumented workers matter for construction labor supply, but the consumer price channel is weak. Buyers do not purchase standardized products in a competitive retail market. Each project has different terms, materials, subcontractors, and locations. Labor savings may be captured by subcontractors or contractors before reaching the final buyer. A fixed-price contract can also allow a firm to keep labor savings as profit. Therefore, firms and contractors capture the largest relative share in construction. For construction, the evidence points most

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strongly toward firm and contractor gains, because labor savings are filtered through contracts and subcontracting before they can reach final buyers.

Table 3. Illustrative Ranking of Gain Distribution Across Sectors

Sector	Main Beneficiary	Relative Consumer Share	Relative Firm Share	Evidence Basis
Agriculture	Shared between firms and consumers	Highest	Medium	42% unauthorized crop workers; 74% in five states
Meat processing	Firms more than consumers	Medium	High	45.4% foreign-born workforce; 56.1% foreign-born share in top meatpacking states; four largest firms handle 85% of steer/heifer purchases and 67% of hog purchases
Construction	Firms and contractors	Lowest	Highest	16% unauthorized workers in construction; project-based pricing

Table 3 summarizes the final result. Agriculture is closest to shared gains because consumers benefit from stable food supply and lower price pressure. Meat processing benefits firms more because the industry is concentrated, although consumers still benefit from avoiding supply disruptions. Construction benefits firms and contractors the most because labor cost savings are least likely to pass through clearly to final buyers. These percentages should not be interpreted as exact dollar shares. Instead, they show the relative direction of the evidence: all three sectors create some firm benefit, but the consumer channel weakens as price transparency declines.

7. Conclusion and Implications

This paper asks who gains more from undocumented labor: firms or consumers, and whether the answer changes across sectors. The evidence shows that there is no single answer for the whole U.S. economy. Undocumented labor does not affect every worker, firm, or consumer in the same way. Its effects depend on where undocumented workers are concentrated, which workers are the closest substitutes, and how much of the labor-cost advantage is passed through to final prices or supply stability.

The first important point is that wage effects should be understood through close substitution, not through a simple native-born versus immigrant comparison. Undocumented workers are most likely to place wage pressure on workers who perform similar tasks in the same local labor market. In agriculture, this means legal immigrant farmworkers and other low-skill crop workers are the closest substitutes. In meat processing, the closest substitutes are legal immigrants and low-skill native-born workers in production jobs. In construction, substitution is broader because tasks vary by project, but the most exposed workers are still those doing similar manual work in the same local market. This means the wage effect is concentrated among specific groups of workers rather than spread evenly across all native-born workers.

The second point is that firm gains are usually more direct than consumer gains. Firms benefit when undocumented labor lowers labor costs, helps them avoid labor shortages, or allows production to continue smoothly. Consumers benefit only if those lower costs or production benefits pass through to prices or supply stability. This distinction is important because pass-through depends on market conditions. If prices are transparent and firms face stronger competition, consumers are more likely to receive part of the benefit. If markets are

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concentrated, demand is less elastic, or prices are negotiated and difficult to observe, firms are more likely to keep a larger share of the gain.

This is why the distribution of gains differs across agriculture, meat processing, and construction. Agriculture is closest to a shared-gain sector because undocumented labor is highly important to crop production and labor stability can affect food supply and price pressure. Meat processing benefits firms more than consumers because immigrant labor is essential to production, but concentration gives firms more ability to retain savings instead of fully passing them through. Construction gives the largest relative share to firms and contractors because final prices are project-based, subcontracted, and less transparent to buyers. In that sector, lower labor costs can increase margins without clearly appearing as lower prices for final consumers.

Overall, the main takeaway is not simply that undocumented labor lowers wages. A more accurate conclusion is that undocumented labor redistributes gains differently across sectors. The outcome depends on labor substitution, production dependence, market power, and pass-through. This also means immigration and labor policy should be evaluated by sector rather than through one national average. Sudden labor removal in high-exposure sectors can disrupt production, raise replacement costs, and increase pressure on supply chains. At the same time, reliance on undocumented labor reflects weak worker protections and unequal bargaining power. A realistic policy discussion therefore has to balance production stability, fair labor standards, and consumer prices rather than treating undocumented labor as having only one effect.

AI Use Statement

I used AI assistance only for language polishing. All sources, evidence, arguments, and final edits were reviewed and approved by group members.

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