



The Economics and Policy of Illegal Immigration in the United States

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Executive Summary

Policymakers across the political spectrum share a belief that high levels of illegal immigration are an indictment of the current immigration policy regime. An estimated 12 million unauthorized immigrants live in the United States, and the past decade saw an average of 500,000 illegal entrants per year. Until recently, the presence of unauthorized immigrants was unofficially tolerated. But since 2001, policymakers have poured huge resources into securing US borders, ports, and airports; and since 2006, a growing range of policies has targeted unauthorized immigrants within the country and their employers.

Notwithstanding these efforts, no agreement has materialized on a system to replace the status quo and, in particular, to divert illegal flows to legal ones. Policy inaction is a result not only of a partisan divide in Washington, but also of the underlying economic reality that despite its faults, illegal immigration has been hugely beneficial to many US employers, often providing benefits that the current legal immigration system does not.

Unauthorized immigrants provide a ready source of manpower in agriculture, construction, food processing, building cleaning and maintenance, and other low-end jobs, at a time when the share of low-skilled native-born individuals in the US labor force has fallen dramatically.

Not only do unauthorized immigrants provide an important source of low-skilled labor, they also respond to market conditions in ways that legal immigration presently cannot, making them particularly appealing to US employers. Illegal inflows broadly track economic performance, rising during periods of expansion and stalling during downturns (including the present one). By contrast, legal flows for low-skilled workers are both very small and relatively unresponsive to economic conditions. Green cards are almost entirely unavailable to low-skilled workers; while the two main low-skilled temporary visa programs (H-2A and H-2B) vary little over the economic cycle and in any case represent scarcely 1 percent of the current unauthorized population, making them an inconsequential component of domestic low-skilled employment.

Despite all this, illegal immigration's overall impact on the US economy is small. Low-skilled native workers who compete with unauthorized immigrants are the clearest losers. US employers, on the other hand, gain from lower labor costs and the ability to use their land, capital, and technology more productively. The stakes are highest for the unauthorized immigrants themselves, who see very substantial income gains after migrating. If we exclude these immigrants from the calculus, however (as domestic policymakers are naturally inclined to do), the small net gain that remains after subtracting US workers' losses from US employers' gains is tiny. And if we account for the small fiscal burden that unauthorized immigrants impose, the overall economic benefit is close enough to zero to be essentially a wash.

Where does this leave policymakers? Any new reform effort will have to take a stand on preventing versus facilitating inflows of low-skilled foreign labor. Legislation is expected to embrace aspects of two different strategies: enforcement strategies designed to prevent illegal immigration, and accommodation strategies designed to divert illegal flows through legal channels using legalization and expanded legal options for future prospective migrants.

Since US spending on enforcement activities is already very high, sizeable increases in enforcement resources could easily cost far more than the tax savings they generated from reduced illegal presence in the United States. Because the net impact of illegal immigration on the US economy does not appear to be very large, one would be hard pressed to justify a substantial increase in spending on border and interior enforcement, at least in terms of its aggregate economic return.

A more constructive immigration policy would aim to generate maximum productivity gains to the US economy while limiting the fiscal cost and keeping enforcement spending contained. Effectively, this means converting existing inflows of illegal immigrants into legal flows. It does not have to mean increasing the total number of low-skilled foreign workers in the labor force. Policies designed to achieve this would:

- provide sufficient legal channels of entry to low-skilled workers by expanding legal options for immigration while maintaining reasonable enforcement of immigration laws;
- allow inflows to fluctuate with the economy;
- create incentives for both employers and immigrants to play by the rules by ensuring meaningful enforcement at US worksites and rewarding workers for their compliance by giving them the chance to seek legal permanent residence; and
- mitigate the fiscal impact of low-skilled immigration by charging a fee for legal entry or taxing employers.

I. Introduction

“We need immigration reform that will secure our borders, and... that finally brings the 12 million people who are here illegally out of the shadows... We must assert our values and reconcile our principles as a nation of immigrants and a nation of laws.”

Barack Obama, June 28, 2008

“America’s immigration system is outdated, unsuited to the needs of our economy and to the values of our country. We should not be content with laws that punish hard-working people and deny businesses willing workers and invite chaos at our border.”

George W. Bush, February 2, 2005

Barack Obama, like George Bush and countless others before him, has declared that our immigration system is broken and in need of an overhaul. While the two presidents would not agree on all the details of a reform plan — with Bush focusing, in his second term, on enforcement initiatives and a temporary worker program; and Obama intent on giving the unauthorized population a path to legal residence — they share a belief that high levels of illegal immigration are an indictment of the current policy regime and that immigrants by and large make positive contributions to America.

There are currently 11.9 million unauthorized immigrants living in the United States, with an average of 500,000 new entrants arriving annually over the last decade.¹ As many as two-thirds of unauthorized immigrants enter the country by crossing the US-Mexico border, with the remaining 30 to 40 percent arriving on temporary entry visas and then staying on after their visas expire.² Though the ongoing recession appears to have temporarily stanching the growth of the unauthorized population, high levels of illegal entry are likely to resume, if past experience is any guide, once the US economy recovers.

If leaders from different parties and with quite different political orientations can agree on a broad mandate for immigration reform, why has Congress not passed such legislation? A conventional, but incomplete, answer for why immigration reform has not occurred is that it is another casualty of the partisan divide gripping Washington. Democrats and Republicans often disagree on immigration; and there also is conflict within the parties themselves, which has complicated the formation of coalitions to support reform. An alternative explanation is

¹ Jeffrey S. Passel and D’Vera Cohn, *A Portrait of Unauthorized Immigrants in the United States* (Washington, DC: Pew Hispanic Center, 2009), <http://pewresearch.org/pubs/1190/portrait-unauthorized-immigrants-states>.

² Office of the Inspector General, US Department of Justice, *Follow-Up Report on INS Efforts To Improve The Control Of Nonimmigrant Overstays*, Report No. I-2002-006 (Washington, DC: Office of the Inspector General, US Department of Justice, 2002), <http://www.justice.gov/oig/reports/INS/e0206/intro.htm#bac>; Rey Koslowski, *Real Challenges for Virtual Borders: The Implementation of US-VISIT* (Washington, DC: Migration Policy Institute, 2005), 5, www.migrationpolicy.org/pubs/Koslowski_Report.pdf; and US Government Accountability Office, *Overstay Tracking: A Key Component of Homeland Security and a Layered Defense*, GAO-04-82 (Washington, DC: US Government Accountability Office, 2004), <http://www.gao.gov/new.items/d0482.pdf>.

that the current regime of illegal immigration, despite its faults, has been sufficiently beneficial to US employers that they are doubtful about the capacity of Congress to improve the situation and therefore unwilling to take the political risk of supporting reform. Unauthorized entry is the primary means through which the US economy gains access to low-skilled foreign labor. By tacitly permitting illegal employment (at least through 2006, when the Department of Homeland Security tightened interior enforcement), the US government left its regulation to the market, which means that inflows of unauthorized labor responded to the demands of US business, helping raise US productivity in the process. The obvious downsides of such a system include limited government control over national borders and the insecurity and abuse to which unauthorized migrants are often exposed.

II. The Economics and Policy of Illegal Immigration

Legal mechanisms for low-skilled immigration, at least in their current form, are not designed to meet the changing demands of US employers. To enter legally, foreign workers either have to obtain a green card (given US immigration law, this effectively requires them to have close family members in the United States), or secure a temporary work visa. The H-2A and H-2B visa programs are the main temporary avenues through which low-skilled workers enter the country. The total supply of H-2A and H-2B visas is scarcely 1 percent of the current unauthorized population, making foreign guest workers a negligible part of the low-skilled US labor force.

Given the vast scale of illegal immigration and few existing channels for legal entry, there is pressure on Washington to resolve America's immigration problem. President Obama has promised that he will tackle the issue soon. Legislation is expected to embrace aspects from each of the major competing theories currently en vogue:

- An enforcement strategy, which would use greater security at the border and in the US interior to prevent future illegal immigration and employment of unauthorized workers, and convince those here unlawfully to return home; and
- A starkly different accommodation strategy, under which the United States would legalize unauthorized immigrants in the country and offer expanded legal options to absorb future prospective migrants.

Any new reform effort will have to take a stand on preventing versus facilitating inflows of low-skilled foreign labor. The immigration legislation Congress contemplated but did not pass in 2007, for example, was a blend of enforcement and accommodation approaches — pairing a path to legal status for unauthorized immigrants and a new temporary worker program with stepped-up border and interior enforcement.

To weigh the relative merits of enforcement and accommodation strategies, this paper lays out a set of stylized facts about illegal immigration in the United States and concludes with a set of recommendations for policymakers. Are unauthorized immigrants important to the US economy? Would reducing low-skilled immigration be good for the United States? Is the type of immigration reform Congress would pass liable to make the country better or worse off?

I. Unauthorized Immigrants Are a Large Part of the Low-Skilled US Labor Force

Over the last 50 years, the United States has raised the education level of its adult population dramatically. Whereas in 1960 half of US-born working-age adults had not completed high school, today the figure is just 8 percent. Though the share of low-skilled native-born individuals in the US labor force has fallen, employers continue to require less-educated workers in US agriculture, construction, food processing, building cleaning and maintenance, and other low-end jobs. Immigrants, unauthorized immigrants in particular, have stepped in to provide a ready source of manpower. Unauthorized immigrant workers have been an important source of low-skilled labor supply to the US economy for many decades.

The Pew Hispanic Center estimates that the number of unauthorized immigrants in the US labor force was 8.3 million in 2008, up from 6.3 million in 2003 but down slightly from the 2007 peak of 8.5 million.³ Just as the 2002 to 2007 economic expansion increased employment of unauthorized immigrants, the illegally resident labor force has stalled during the current recession. The vast majority of unauthorized immigrants work in low-skilled occupations, owing both to their immigration status and their low levels of schooling. Forty-seven percent of unauthorized immigrants between 25 and 64 years of age have not completed the equivalent of a US high school education; they account for 20 percent of working-age adults in the United States with less than a high school degree. Unsurprisingly, unauthorized immigrants have a significant presence in industries intensive in the use of low-skilled labor. In 2008, they represented 25 percent of farm workers, 19 percent of building and maintenance staff, 17 percent of construction labor, 12 percent of employees in food preparation and serving, 10 percent of production labor, and 5 percent of the total civilian labor force.⁴ The US economy could no doubt survive the departure of these workers, but it would cause disruptions in labor-intensive industries and the regions in which they are concentrated.

The majority of unauthorized immigrants come from countries near the United States, with 59 percent being from Mexico, 15 percent from Central America and the Caribbean, and 7 percent from South America.⁵ The vast majority of these individuals from nearby countries enter the United States by crossing the US-Mexico border. The remaining 19 percent of unauthorized immigrants are divided among Asia (11 percent), Canada and Europe (4 percent), and other countries (4 percent), most of whom enter on and then overstay temporary visas. With over four-fifths of unauthorized immigrants coming from the Western Hemisphere, managing US borders is clearly a central function of US immigration policy.

While unauthorized migrants are in the country illegally, many are, in some respects, well integrated into US society. They work in formal businesses, own their own homes, shop in neighborhood stores, attend local churches, and send their children to public schools. More

³ Passel and Cohn, *A Portrait of Unauthorized Immigrants in the United States*.

⁴ *Ibid.*

⁵ *Ibid.*

than half have payroll taxes deducted from their paychecks⁶ and a smaller but still significant number pays federal income taxes.⁷ Until the Department of Homeland Security enacted stricter interior enforcement policies in 2006, their presence in the country was unofficially tolerated, at least once they had succeeded in getting past the US Border Patrol.

Unauthorized migrants who eschewed criminal activity were largely left alone. In his second term, President Bush shifted away from a policy of unofficial tolerance by stepping up efforts to prosecute unauthorized immigrants using unauthorized Social Security numbers (in order to hide their unlawful status from employers) and enlisting the help of local law enforcement in tracking down unauthorized immigrants in the US interior. Recently, President Obama has scaled back measures to target unauthorized Social Security numbers on the one hand, but has also expanded certain law enforcement initiatives and auditing of employers for illegal employment on the other.

Low-skilled foreign workers seeking to enter the United States legally have two options. One is to obtain a green card. The Immigration Act of 1990 set an overall annual cap on the number of green cards at 675,000, with specific quotas assigned to immigrants who are family-sponsored (480,000), skilled employees (140,000), or entering by lottery (55,000).⁸ Immediate relatives of US citizens enter without restriction; refugees and asylees have their own visa category. To qualify for a green card, a low-skilled foreign worker would have to have a close relative who is a US citizen or legal resident, obtain one of 5,000 employment-based visas available each year to low-skilled workers, be a refugee, or win one of the scarce lottery visas. The second option is to obtain a temporary work visa under the H-2A (seasonal agricultural worker) or H-2B (seasonal nonagricultural worker) visa programs, which permit visa holders to work for a US employer for up to one year.⁹ H-2B visas are capped at 66,000 per year; H-2A visas have no cap but are subject to onerous requirements and strict work rules which limit their use. In most years, H-2B visa admissions are comparable to H-2A admissions.¹⁰ In light of the 8.3 million unauthorized immigrants working in the United States, the roughly 150,000 temporary low-skilled legal immigrants who are in the country at any one moment are an inconsequential component of domestic low-skilled employment.

Were the United States to restrict or eliminate illegal immigration through greater enforcement, the clear losers would be business owners in labor-intensive industries, including agriculture, construction, lodging, restaurants, food processing, and building maintenance and cleaning services. Not surprisingly, these are the industries that fight hardest against restrictions on low-skilled immigration.

⁶ Council of Economic Advisers, *Economic Report of the President* (Washington, DC: Council of Economic Advisers, 2005), http://www.gpoaccess.gov/eop/2005/2005_erp.pdf.

⁷ Steven A. Camarota, *The High Cost of Cheap Labor: Illegal Immigration and the Federal Budget* (Washington, DC: Center for Immigration Studies, 2004), <http://www.cis.org/articles/2004/fiscal.html>.

⁸ US Department of Homeland Security, *2008 Yearbook of Immigration Statistics* (Washington, DC: US Department of Homeland Security, 2009), <http://www.dhs.gov/ximgtn/statistics/publications/yearbook.shtm>.

⁹ Ibid.

¹⁰ Ibid.

2. Illegal Immigration Responds to Market Conditions in Ways that Legal Immigration Presently Cannot

Illegal immigration occurs because foreign workers can earn much more in the United States than they can at home and US immigration restrictions prevent them from entering the country through legal means. Consider the gain to emigration for a young urban male in Mexico who has completed nine years of education (which in Mexico is equivalent to finishing secondary school). Simply by moving to the United States, the worker's annual income would rise by 2.5 times, even after controlling for cost-of-living differences between the two countries.¹¹ The income gain from migration is a result of international differences in labor productivity, with labor in the United States being far more productive than in Mexico.

Illegal immigration is not entirely unregulated. To a certain extent, the US government affects the inflow of unauthorized immigrants by choosing how intensively to enforce the border and deter the employment of unauthorized workers. The Border Patrol has more than doubled since 2001, with 20,000 agents who police US borders, ports, and airports, seeking to apprehend individuals attempting to enter the country illegally. Beyond the increased agent deployment, other measures have strengthened the enforcement presence, including the construction of fencing at key crossing points at the US-Mexico border, use of technology such as unmanned aerial vehicles to patrol remote border locations, and increased detention and prosecution of would-be crossers. As a result, illegal migrants are forced to pay higher prices to smugglers to get into the country — a development that weakens the incentive to migrate to the United States. In 2008, the price for smuggler services at the US-Mexico border averaged \$2,750, up from \$1,250 in the late 1990s (adjusted for inflation).¹²

While enforcement clearly plays a role in illegal migration patterns, the variation in illegal immigration over time is largely a response to changes in the US macroeconomy, as well as the economies of migrants' home countries. In the United States, wages for low-skilled labor rise and fall over the business cycle.¹³ Individuals' earnings peak during expansions, as rising demand for goods and services push prices up, allowing each worker to generate more revenue per hour worked and hence to earn more. Correspondingly, wages drop during downturns, as falling demand lets prices drop, bringing wages down, too. The value to business of having access to low-skilled labor is greatest when economic growth is high and least when it is low.

Over the last two decades the inflow of unauthorized immigrants has broadly tracked economic performance. During the US economic expansion of 2002 to 2007, unauthorized migrants came in large numbers, particularly at the peak of the US housing boom. In 2008,

¹¹ Michael Clemons, Claudio Montenegro, and Lant Pritchett, "The Place Premium: Wage Differences for Identical Workers across the US Border," (working paper No. 148, Center on Global Development, Washington, DC, December 2008), <http://www.cgdev.org/content/publications/detail/16352>.

¹² For example, see The Mexican Migration Project, "Border Crossing Costs" 1980-2008, <http://mmp.opr.princeton.edu/results/001costs-en.aspx>.

¹³ Katherine Abraham and John Haltiwanger, "Real Wages over the Business Cycle," *Journal of Economic Literature*, 33 (1995): 1216-1264.

21 percent of unauthorized migrants in the United States were employed in construction. In the mid-1990s, when the United States enjoyed rapid growth and Mexico suffered a financial crisis, illegal entry was also at high levels.¹⁴ Once in the country, unauthorized migrants are mobile geographically, moving between and within states in response to regional business cycles. Today, unauthorized immigrants have a presence in most parts of the United States, having spread out beyond the handful of traditional gateway states where they once were nearly totally concentrated.

Because of policy constraints on the number of visas, some types of legal immigration are largely unresponsive to market forces, however. The number of green cards available each year is fixed by law and does not adjust in response to changes in the US economy. Congress could in principle vary the number of temporary work visas according to US macroeconomic conditions, but in practice adjusts the supply only modestly and on an *ad hoc* basis. And although Congress temporarily expanded low-skilled seasonal work visas from 2004 to 2008 through the H-2R program for “returning workers,”¹⁵ the total supply of temporary legal low-skilled workers remained tiny relative to the number of unauthorized immigrants employed in US industry. Meanwhile, employer take-up of the uncapped but highly regulated H-2A (agricultural) visas remained roughly constant during the 2002 to 2007 economic expansion; and the annual inflow of nonagricultural low-skilled workers rose by less than 70,000 over the same period,¹⁶ even as US employers hired hundreds of thousands of illegally resident workers in booming industries such as construction. In other words, US visa programs are simply not designed to accommodate the changing demands of US industry. Under current policies, if businesses want to hire additional low-skilled foreign workers, their primary option is to employ unauthorized immigrants.

If Congress chooses to use increased legal immigration as a means to reduce illegal inflows, it will have to revamp entirely the manner in which employment visas are allocated. Visas would need to be supplied flexibly, made responsive to market conditions, and provided to the workers in demand by US business. Not since the “bracero” guest worker program, which lasted from the 1940s to the early 1960s, has the United States run such a system.

3. The Overall Impact of Illegal Immigration on the US Economy Is Small

Economic theory suggests that illegal immigration has both positive and negative impacts on the US economy and its workers. The arrival of foreign workers increases the domestic supply of low-skilled labor, putting downward pressure on US wages. Low-skilled workers,

¹⁴ Gordon Hanson and Antonio Spilimbergo, “Illegal Immigration, Border Enforcement and Relative Wages: Evidence from Apprehensions at the U.S.-Mexico Border,” *American Economic Review*, 89 (1999): 1337-57.

¹⁵ The H-2R program allowed individuals who had previously worked in the United States with an H-2B (nonagricultural) visa to receive a cap-exempt H-2R visa.

¹⁶ US Department of State, “Classes of Nonimmigrants Issued Visas (Detailed Breakdown) Fiscal Years 2004-2008,” <http://www.travel.state.gov/pdf/NIVClassIssued-DetailedFY2004-2008.pdf>; and US Department of State, “Classes of Nonimmigrants Issued Visas (Detailed Breakdown) Fiscal Years 2002-2006,” <http://travel.state.gov/pdf/FY06AnnualReportTableXVIA.pdf>.

native and foreign born, see their wages fall,¹⁷ while employers enjoy higher income, both because their labor costs are lower and because their businesses are more productive. As a result, immigration has two effects: it redistributes income from low-skilled native workers to employers and it creates a net gain in national income by allowing employers to use their land, capital, and technology more productively. Economists refer to this net gain to the US economy as the immigration surplus. The size of the surplus depends on the productive potential of the arriving labor. In 2008, unauthorized immigrants accounted for 5.4 percent of the US civilian labor force.¹⁸ Applying standard economic methods, the surplus from illegal immigration, or the net gain to US workers and employers exclusive of any labor income paid to the unauthorized immigrants themselves, is approximately 0.03 percent of US GDP.¹⁹ The arriving labor does contribute to a significantly larger expansion in overall US GDP, as unauthorized workers increase the total amount of output the US economy generates. But the vast majority of this additional wealth goes to unauthorized immigrants themselves, leaving only a small gain in US native income. This small income gain to US employers (net of the wages losses to US workers) results primarily from the modest scale of illegal immigration in the overall workforce.²⁰

The 0.03 percent of GDP figure for the immigration surplus is based on many restrictive assumptions. It is meant more as an indicator of the order of magnitude of illegal immigration's impact on the US economy than as a precise estimate. Reasonable changes in the underlying economic model could easily make the impact larger or smaller. But note that even if the impact is too small by a factor of ten — which is unlikely, unless illegal immigration somehow has large unmeasured effects on innovation and technological progress — it would still be less than *one-third of 1 percent* of GDP.

The fact that illegal immigration has a small net impact on US native income is not inconsistent with unauthorized workers being an important source of low-skilled labor. The two findings are reconciled by the fact that low-skilled labor accounts for a small share of the US labor force, and that most of the economic output that illegal immigration generates accrues to the immigrants themselves. In 2007, workers with less than a high school education, whether native or foreign born, accounted for just 8 percent of total hours worked, down from 21 percent in 1980. While unauthorized immigrants are an ever-larger

¹⁷ George J. Borjas, "The Labor Demand Curve Is Downward Sloping: Reexamining the Impact of Immigration on the Labor Market," *Quarterly Journal of Economics* 118 (2003): 1335-1374.

¹⁸ Passel and Cohn, *A Portrait of Unauthorized Immigrants in the United States*.

¹⁹ From George J. Borjas, *Heaven's Door: Immigration Policy and the American Economy* (Princeton, NJ: Princeton University Press, 1999), the formula for the immigration surplus is: $0.5 \times \text{labor's share of national income} \times \text{wage elasticity} \times (\text{immigrant share of the labor force})$.² Labor's share of national income is approximately 0.7. The wage elasticity is the percent change in wages from a 1 percent increase in labor supply due to immigration, which I take to be 0.3, as reported in Borjas "The Labor Demand Curve Is Downward Sloping." This formulation of the immigration surplus is based on a simple static model of the US economy, in which there are two factors of production, capital and labor, with immigration having no dynamic effects on economic outcomes. As such, it is useful for gauging the short-run consequences of immigration only.

²⁰ In other words, the increase in US GDP from illegal immigration equals the immigration surplus plus the total labor income paid to unauthorized immigrants, meaning that US GDP rises by much more than US native income, with foreign workers pocketing the difference.

share of the US low-skilled labor force, the share of the low-skilled in total US employment is on the wane.

It is worth noting that there is a population for which illegal immigration is a big deal: the migrants themselves (and their family members). Unauthorized immigrants gain substantially more by living and working in the United States than any US group (such as low-skilled native workers) loses. For unauthorized immigrants from Mexico, who account for 59 percent of the total unauthorized population, the total gain in labor income from moving to the United States was equivalent to approximately \$170 billion in 2008, or 1.2 percent of US GDP.²¹ Considering how immigration affects global welfare, the gain in income to immigrants far outweighs the net loss to US natives, which has been estimated as high as 9 percent for high school dropouts over a 20-year period,²² meaning that on net illegal migration from Mexico to the United States raises global economic well-being.²³ Yet, US policymakers, by virtue of their mandate as public servants, naturally spend much more time worrying about the welfare of US residents than that of would-be immigrants. Consequently, the relatively large income gain that immigrants enjoy receives little weight in US policy decisions.

A second important effect of immigration on national income occurs through changes in the net tax burden on US households. Many unauthorized immigrants contribute to government coffers at the local, state, and federal levels by paying income, payroll, property, and sales taxes. They also increase government expenditure by using public services, including fire and police protection, public roads and bridges, publically funded emergency health care, and, most importantly, public education — though not all at the same levels as the native born. Whether illegal immigration causes the tax burden on natives to rise or fall depends on how much income immigrants earn, the size and structure of their families, and whether they receive public benefits. Based on the profile of immigrant households in the US Current Population Survey, households headed by an unauthorized immigrant appear to generate a short-run net fiscal cost of approximately 0.1 percent of US GDP.²⁴ Adding the small positive immigration surplus to the small negative net fiscal impact, the total short-run change in US national income from illegal immigration is -0.07 percent of GDP. While the value is negative, indicating illegal immigration on net lowers US national income, it is close enough to zero to be essentially a wash.

²¹ Gordon H. Hanson, “The Economic Consequences of the International Migration of Labor,” *Annual Review of Economics*, forthcoming 2009.

²² Estimates of the impact on low-skilled native workers are highly disputed. See Borjas, *The Labor Demand Curve Is Downward Sloping: Reexamining the Impact of Immigration on the Labor Market*.

²³ The astute reader will observe that the impact of migration on global income depends on the net impact on the receiving country, the net impact on the migrants, and the net impact on the sending country. The third component is not considered here, but appears to be too small to change the conclusion that migration from Mexico to the United States raises global welfare (Hanson, 2009).

²⁴ See Camarota, *The High Cost of Cheap Labor: Illegal Immigration and the Federal Budget*; Hanson 2007. Short-run means that future taxes and spending associated with immigration are ignored. Obviously, there are many caveats in estimating the fiscal impacts of immigration. For illuminating discussions on this point, see James P. Smith and Barry Edmonston, eds., *The New Americans: Economic, Demographic, and Fiscal Effects of Immigration* (Washington, DC: National Academy Press, 1997) and Borjas, *Heaven’s Door: Immigration Policy and the American Economy*.

A provocative addendum to the discussion of the fiscal impacts of illegal immigration is that for the US taxpayer an attractive feature of keeping low-skilled immigration illegal is that it mitigates the fiscal cost of admitting foreign workers. Noncitizens in the United States are ineligible to receive most federally funded entitlement programs. Even though most households headed by unauthorized immigrants are poor, they make minimal use of Temporary Assistance for Needy Families, Supplemental Security Income, energy assistance, housing subsidies, or other welfare programs.²⁵ Whereas individuals receiving a green card are eligible to receive these benefits after five years of residence in the United States, unauthorized immigrants have no such option. Unauthorized immigrants do draw on public expenditure in other ways, especially through their children, who may attend public schools and, if they are born in the United States, receive Medicaid and participate in school breakfast and lunch programs. Access to public education and publicly funded emergency health care appear to be largely responsible for the negative impact of illegal immigration on US public finances.²⁶

The magnitudes of the costs and benefits of illegal immigration hold several important lessons for policymakers. One is that notwithstanding all of the focus and controversy surrounding illegal immigration, the fate of the US economy is not riding on the country's policy toward unauthorized workers. Allowing a few more or a few less unauthorized immigrants into the country would not have dire consequences. At the same time, Congress can increase the net benefit that the United States derives from each low-skilled immigrant by reducing his or her fiscal impact, either by charging immigrants an entry fee or taxing the employers that hire them (which, obviously, would require them to be legal). Reducing government benefits to the unauthorized population is not a meaningful option, given that the primary benefits they receive are in the form of public education, to which their access is constitutionally guaranteed, and Medicaid for their US-born children.

4. Enforcement against Illegal Immigration Is Expensive (Relative to the Potential Gains from Eliminating Illegal Entry)

The US government devotes considerable resources to enforcement against illegal immigration. Most activity occurs at the borders, particularly the US-Mexico border, where Border Patrol agents monitor points of entry. Nationwide, the Border Patrol made 723,000 apprehensions in 2008, down from 877,000 a year earlier.²⁷ The vast majority of these individuals were caught along the US-Mexico border. Between 1992 and 2008, total annual officer hours worked by the US Border Patrol increased by a factor of four. The 20,000 Border Patrol agents currently in the field are an increase from 11,000 in 2004. Additional resources have been devoted to building and maintaining physical barriers along the border

²⁵ Camarota, *The High Cost of Cheap Labor: Illegal Immigration and the Federal Budget*. Unauthorized immigrants are not eligible for most welfare programs, although households including a US-citizen spouse or dependent children have greater access to these benefits.

²⁶ Ibid.

²⁷ See US Department of Homeland Security, *Immigration Enforcement Actions, 2008: Annual Report*, Office of Immigration Statistics, July 2009, http://www.dhs.gov/xlibrary/assets/statistics/publications/enforcement_ar_08.pdf.

and upgrading the technology and equipment agents have at their disposal. Interior enforcement efforts include monitoring and auditing employee roles at US worksites, working with local law enforcement to find and deport unauthorized immigrants who have committed crimes (under the Secure Communities and 287(g) programs), and expanding E-Verify (an electronic system run by the Department of Homeland Security that allows US employers to verify the eligibility of their workers, now mandatory for federal contractors).²⁸ The cost of enforcement against illegal entry is large. In 2009, the budgets for US Customs and Border Protection (which oversees border enforcement) and US Immigration and Customs Enforcement (which oversees interior enforcement) were \$9.5 billion and \$5.4 billion, respectively.²⁹

Illegal immigration is not, of course, the only reason for increased border enforcement; since the Sept. 11, 2001 terrorist attacks, national security and terrorism concerns have also driven spending. As a thought experiment, however, it is interesting to consider whether border enforcement is worth the expense. In economic terms, the justification for border enforcement is to keep unauthorized immigrants out of the country, thereby avoiding the negative net economic impact that their presence entails. This negative impact, as we have seen, appears to be small. Suppose the United States were to increase enforcement to the point where it eliminated illegal immigration entirely, by shutting down new inflows and convincing those in the country to return home. Suppose the annual gain to the United States was 0.07 percent of GDP, or \$10 billion, as we calculated earlier. Eliminating illegal immigration would be justified only if the extra annual enforcement costs were less than \$10 billion. Enforcement during the mid-2000s, which cost \$10-\$15 billion a year, allowed 500,000 new unauthorized immigrants to enter the country annually. Unless the next \$10 billion in enforcement is much more effective than the first \$15 billion, it is difficult to see how one could justify a pure enforcement strategy to address illegal immigration, at least in terms of standard cost-benefit analysis.

III. Final Remarks

The Obama administration is likely to address immigration reform at some point. Whether change will occur through comprehensive new legislation or piecemeal reforms is unknown. What is certain is that with large numbers of unauthorized immigrants residing in the United States the issue is not going to disappear any time soon.

Illegal entry is the primary means through which low-skilled foreign workers come to the United States. These workers account for just over 5 percent of the US labor force, but are far more significant to the sectors that use low-skilled labor intensively, including farming, construction, low-end manufacturing, the hospitality industry, and building cleaning and

²⁸ See Randal C. Archibold, "US Alters Disputed Immigration Rules for Police," *The New York Times*, October 16, 2009; Julia Preston, "US Identifies 111,000 Immigrants with Criminal Records," *The New York Times*, November 11, 2009; and Neil A. Lewis, "Immigration Officials to Audit 1,000 More Companies," *The New York Times*, November 19, 2009.

²⁹ GPO Access, "Budget of the United States Government: Detailed Functional Tables Fiscal Year 2010," <http://www.gpoaccess.gov/usbudget/fy10/fct.html>.

maintenance. An enforcement-only strategy that did not facilitate legal labor inflows but which sought to cut low-skilled immigration drastically would hurt these industries. While business gains from having access to low-skilled foreign workers, the aggregate productivity bonus to the US economy is small. Also modest is the fiscal cost of illegal immigration. Because the net impact of illegal immigration on the US economy does not appear to be very large, one would be hard pressed to justify a substantial increase in spending on border and interior enforcement, at least in terms of its economic return. This does not mean enforcement should be lax, but rather that beginning from current levels of spending, sizeable increases in enforcement resources could easily cost far more than the tax savings they generated from reduced illegal presence in the United States.

A constructive immigration policy would allow low-skilled immigration to occur in a manner that generated maximum productivity gains to the US economy, while limiting the fiscal cost of immigration and keeping enforcement spending contained. Effectively, this means converting existing inflows of unauthorized immigrants into inflows of legal immigrants.

Which policies would help this to happen? First, to keep the expense of immigration enforcement in check, low-skilled foreign workers need legal channels of entry into the US labor market. They also need incentives to play by the rules set forth in legal work visas. Low-skilled labor would be more likely to avoid illegal entry if there were meaningful enforcement of immigration laws at US worksites and workers were rewarded for their compliance by having the chance to seek legal permanent residence.

Congress ultimately will have to decide on the overall level of low-skilled immigration that makes sense for the country as a whole. But taking the average inflow across time as given, low-skilled immigration would do more to benefit the US economy if it were allowed to fluctuate from year to year in response to macroeconomic conditions and be channeled through mechanisms that limited adverse fiscal effects. The productivity benefit from immigration is higher when businesses can choose which workers they want to hire and when they want to hire them, which requires making the supply of visas flexible and responsive to changing economic conditions.

Finally, the net fiscal cost of low-skilled immigration would be lower if foreign workers paid a fee for the right to work legally in the United States or employers were taxed for hiring them.

While it is not cost-effective to reduce illegal immigration to zero, by enacting policies such as these Congress should be capable of reducing it by a large measure, expanding legal immigration options and helping the US economy at the same time.

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