

Unauthorized Immigration: Evaluating the Effects and Policy Responses

By Santiago Pinto and Tim Sablik

Immigration has been the subject of intense debate recently in the United States and in Europe. Economists have studied unauthorized immigration to better understand what motivates immigrants to move and what effects they have on domestic workers and the domestic economy. Incorporating this research into a model suggests that centralized enforcement of immigration policies may be more effective than a decentralized approach.

Immigration has recently been the subject of intense policy debate. Interest in immigration is not new, however. For many years, economists have devoted considerable attention to studying the factors that drive individuals to migrate from one country to another, the effects of immigration on the domestic economy, and how immigrants respond to various policies. Recently, economists have focused specifically on immigrants who enter the country unlawfully.

It is generally taken for granted that residents from other countries migrate to the United States because U.S. real wages exceed wages in their countries of origin. However, it is not always straightforward to empirically test this hypothesis using readily available information on documented immigration flows. Binding and slowly changing immigration quotas lead to queues to enter the United States. As a result, entering the country legally is often subject to extended delays. Therefore, legal immigrants do not respond to contemporaneous fluctuations in U.S. or foreign economies. It is partly for this reason that a large portion of the literature on immigration has focused more on the consequences of legal immigration rather than its causes.

In order to understand the drivers of households' decisions to migrate to the United States, researchers have devoted attention to the determinants of unauthorized immigration (UI) flows, which are more responsive to changes in business-cycle conditions. The main determinant of this responsiveness is, undoubtedly, the geographic proximity between the source and destination countries of unauthorized immigrants. Close proximity, as between the United States and Mexico, implies that shocks that affect the source country's economy or the destination country's economy will quickly result in changes in cross-border population flows. Moreover, as population flows persist over time, migration networks develop, facilitating movement across countries. These networks serve as channels through which U.S. employers communicate changes in local labor demand to prospective immigrants, and immigrants rely on these networks to find jobs and housing in the United States.

The ongoing research on UI is broad. Recent work has focused on the consequences of enforcing immigration policies at the state or local level. This line of research investigates the

consequences of initiatives such as those observed in the United States, where states have passed laws that grant them more authority to enforce immigration policy. Similar situations have arisen elsewhere, including within the European Union (EU). Part of this work attempts to quantify the effects on labor market outcomes for both domestic workers and unauthorized immigrants of implementing programs designed to curb hiring of undocumented workers. Other work focuses on how various state and federal policies affect where unauthorized immigrants decide to locate. This *Economic Brief* reviews this literature and describes a model for comparing the effectiveness of federal and local immigration policies.

Documenting the Undocumented

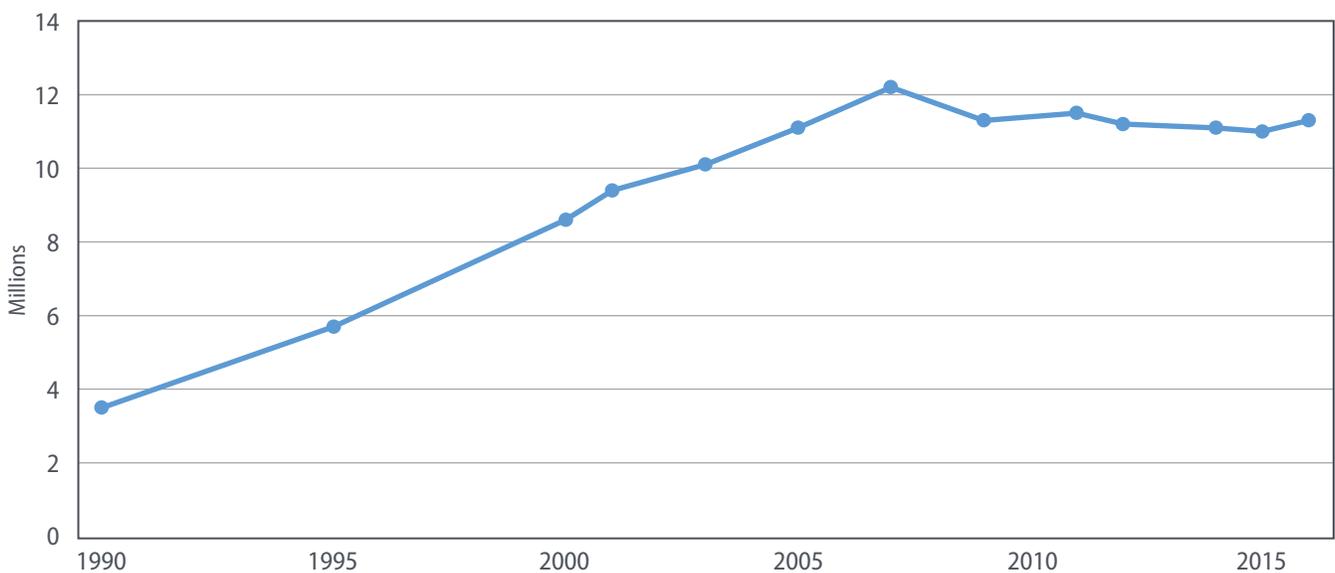
The first challenge to analyzing unauthorized immigrants is to account for them. Unlike legal immigrants, who are documented through the immigration process, unauthorized immigrants are by definition seeking to avoid detection. Several organizations, including the Department of Homeland Security's Office of Immigration Statistics, the Pew Research Center, and the Migration Policy Institute have estimated the number of unauthorized immigrants by comparing the total foreign-born population with the number of temporary and permanent legal immigrants.¹ Current estimates put the number of unauthorized

immigrants in the United States at around 11 million, or about a quarter of all foreign-born residents. (See Figure 1). More than three-fourths of these unauthorized immigrants are from Latin America, and nearly two-thirds of those are from Mexico.

What motivates individuals and families to migrate illegally to the United States? Many come seeking better economic opportunities. For example, higher wages in the United States relative to Mexico have been found to raise the likelihood of attempted border crossings.² On the whole, unauthorized immigrants make up about 5 percent of the U.S. labor force, and they are most heavily concentrated in southwestern states. (See Figure 2). In terms of industries, undocumented workers are heavily concentrated in construction and leisure and hospitality. (See Figure 3.)

Different factors influence which individuals seek to immigrate. One study that looked at unauthorized immigrants from Mexico found that, on the whole, immigrants were more likely to be in the middle of the skill distribution relative to nonimmigrants from their home country. Additionally, higher wages in the United States and good economic conditions in Mexico incentivize more lower-skilled immigrants, while worse economic conditions in Mexico and

Figure 1: Estimated Unauthorized Immigrant Population in the United States



Source: Pew Research Center

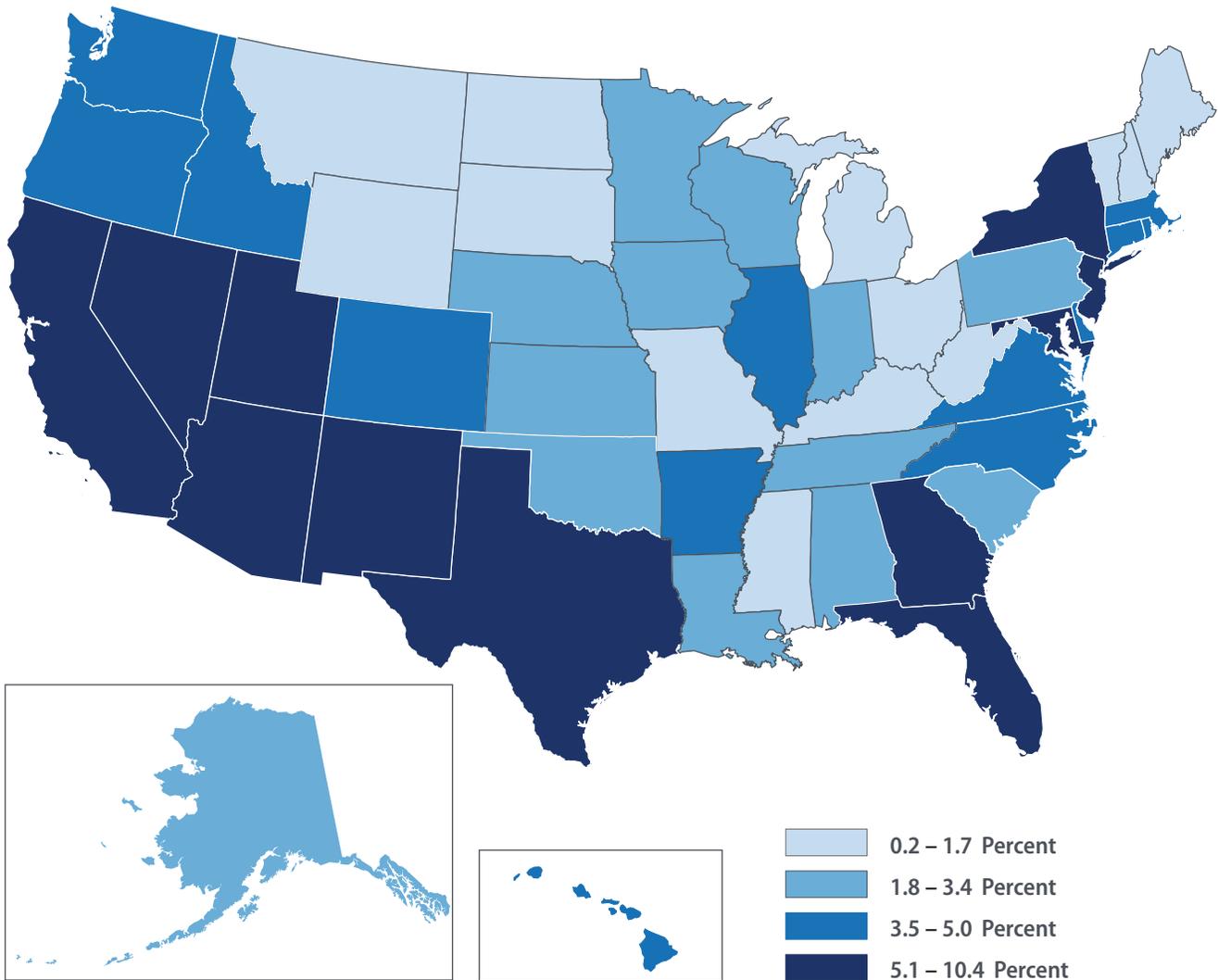
tighter border controls result in higher-skilled immigrants on average.³

Unauthorized immigrant men and women also tend to work in different sectors. For example, men tend to work in formal jobs, while women are more likely to be employed by private households in service jobs. This may affect how households of unauthorized immigrants respond to policies intended to deter undocumented workers. Often underlying such policies is an assumption that undocumented workers have a harmful effect on domestic workers. So, over the years, economists have attempted to quantify these effects.

Unauthorized Immigrant Workers and the Domestic Economy

Just as gathering data on unauthorized immigrants is challenging, so too is measuring the impact those immigrants have on the domestic economy. Crucial to such analysis is an understanding of how unauthorized immigrant workers compare to domestic workers in terms of the degree of substitutability between the two groups. As long as employers can freely substitute foreign-born workers for domestic workers, an influx of immigrants represents an increase in the overall supply of labor, which would put downward pressure on wages. But if immigrant workers are imperfect substitutes for domestic work-

Figure 2: Unauthorized Immigrants as a Percentage of the Labor Force in Each State



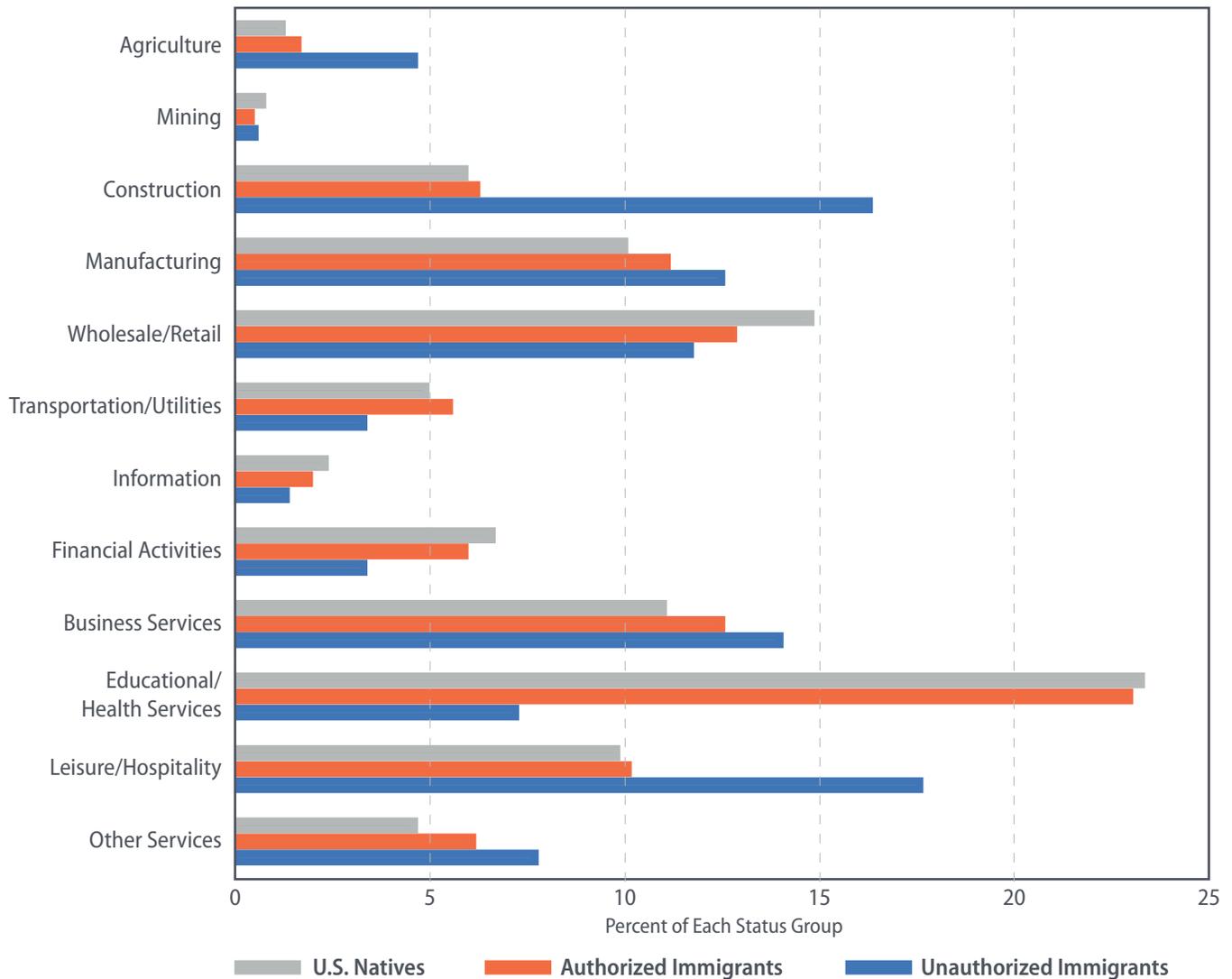
Source: Pew Research Center

ers, then they might not necessarily have as strong an effect on domestic wages.

The degree to which immigrant workers affect domestic wages is an ongoing debate among economists. An early study in the literature by David Card of the University of California, Berkeley looked at the impact of Cuban refugees who entered Miami in 1980 as part of the Mariel Boatlift. These immigrants increased the local labor supply by 7 percent, but Card found no effects on the wages or unemployment rates of similarly skilled workers in Miami.⁴ It is possible that the influx of immigrants prompted some natives to move, however, which

would mask effects on a local level. Studies by George Borjas of Harvard University found that Mexican immigrants have produced significant negative effects on the wages of less-educated domestic workers.⁵ Other studies have estimated that the degree of substitutability between immigrant workers and their U.S.-born counterparts is large but finite, implying a smaller quantitative effect on the wages of less-educated domestic workers. In fact, this research suggests that immigrants have a much larger negative effect on the wages of previous waves of immigrant workers, suggesting that new arrivals tend to substitute for other immigrants more so than native workers.⁶

Figure 3: Share of Each Status Group's Labor Force by Industry in 2014



Source: Pew Research Center

Examining changes in the composition of immigrants is relevant to assessing the overall implications of immigration on the domestic labor market. While it is very likely that larger immigration flows of unskilled individuals depress the wages of low-skilled natives and low-skilled immigrants already in the country, these unskilled immigrants may at the same time boost wages of skilled natives if low-skilled immigrants and skilled workers are complements in the production process.⁷ To the extent that native and immigrant workers specialize in different occupations (for instance, immigrants become construction workers and natives are construction supervisors), it is more likely to expect higher gains in employment and productivity for both groups of workers. Moreover, both business owners and domestic owners of capital would benefit if higher immigration flows positively affect the return on capital.

Wages may not be the only thing affected by immigrant workers. To the extent that immigrants reduce the labor costs for certain goods and services, they may reduce prices for those goods and services as well. As with wages, this effect can be difficult to measure, especially in the case of nontraded services, such as housekeeping, landscaping, or child care. A 2008 study by Patricia Cortes of Boston University found that an increase in the low-skilled immigrant labor force decreased the price of nontraded services that employed a high percentage of immigrants. This effect was driven mostly by the negative effect immigrants had on wages, but like other studies that found a high but finite degree of substitutability between native and immigrant workers, Cortes' work shows that the downward pressure on wages was larger for other low-skilled immigrant workers than for native workers.⁸

It follows from the current state of the research that the net effect of undocumented immigration on the welfare of domestic workers is difficult to determine. While immigrants may negatively affect wages of domestic workers with comparable skills, their labor supply also may result in lower prices for a variety of services enjoyed by natives. So far, researchers have embedded these effects only in a partial equilibrium setting, but the overall effect of immigration on the

domestic economy can only be assessed within a unified framework of analysis that incorporates all these effects at the same time, a task that is worth tackling in future research.

Effect of Policies on Unauthorized Immigration

While the overall impact of unauthorized immigrants on the domestic economy may be unclear, policy-makers have nevertheless adopted various measures aimed at enforcing legal immigration limits and deterring unauthorized immigrants from entering the workforce. How effective have these policies been?

Data on apprehensions by the U.S. Border Patrol suggest that physically limiting unauthorized entry into the country does affect the flow of immigrants.⁹ One study finds that each additional 1,000 officers assigned to protect the border in a state along the U.S.-Mexico border reduces that state's share of Mexican immigrants by nearly 22 percent.¹⁰ Less clear is whether immigrants who would have attempted to enter that state remained in Mexico or whether they instead attempted to locate in a different state.

States also can adopt policies to deter employers from hiring unauthorized immigrants. E-Verify is a database maintained by the U.S. Department of Homeland Security that allows businesses to determine the eligibility of employees to work. State participation in this federal program is optional. Participating states legally require employers to use E-Verify, but the mandate may cover only certain sectors.

A study of the impact of E-Verify laws on unauthorized Mexican immigrants from 2002 through 2012 found that they reduced earnings for men while improving labor market outcomes for those domestic workers most likely to compete with immigrants. Interestingly, these laws also led to an increase in labor market participation by unauthorized female Mexican immigrants. As noted previously, this may be due to the fact that female immigrants are more likely to work in the informal sector, which would be unaffected by E-Verify requirements. It appears, then, that as the wages of men in unauthorized immigrant households decline in states with E-Verify requirements, women in the households enter the

labor market to supply additional income. These effects, however, are not particularly strong. According to the study, the hourly wages of unauthorized immigrant men fell by about 8 percent. It also could be that unauthorized immigrant workers migrate to states with weaker E-Verify enforcement, which would diminish observed effects.¹¹

While some policies are designed to deter unauthorized immigrants, others may act as a draw. A commonly voiced concern by natives is that unauthorized immigrants will utilize public benefits without paying for them, since they are not part of the formal tax base. However, one national study found no evidence that undocumented immigrants in the agricultural sector were attracted to states with generous welfare benefits, though it is possible that immigrants in other sectors behave differently.¹²

Who Should Enforce Immigration Policies?

Traditionally, central governments (the federal government in the United States or a supranational authority in the EU) have been exclusively responsible for enforcing immigration policies. However, this idea has been recently challenged in both the United States and the EU. For instance, several U.S. states have demanded larger roles in controlling unauthorized immigration. In the EU, despite many efforts to coordinate supranational immigration policies, individual countries still retain authority on some decisions, including how to deal with immigration from non-EU countries. Little is known, however, about the consequences of allowing lower levels of government to individually engage in the enforcement of immigration laws.

Recent research by one of the authors of this *Economic Brief* (Pinto) and Subhayu Bandyopadhyay of the Federal Reserve Bank of St. Louis addresses this question.¹³ Their work combines many of the elements discussed in this *Economic Brief* into a single model. Immigration in this framework of analysis has a broad impact on the domestic economy. First, it affects domestic workers and domestic firms in conflicting ways. Second, it may limit governments' ability to provide their preferred levels of local public goods (for example, education and health services).

And third, the effectiveness of both border and internal immigration policies depends both on how costly it is for immigrants to move across international borders and across regions once in the destination country, and on whether subnational or supranational government authorities are responsible for implementing the policies.

Bandyopadhyay and Pinto study the implications of shifting from a regime in which immigration laws are enforced by a central government to one in which they are enforced primarily by state governments or individual countries. Their model assumes that unauthorized immigrants first choose among alternative entry points (states in the United States or countries in the EU), and, once at their destination, they choose a (potentially different) final location. Domestic policies in this setup may affect the entry of unauthorized immigrants, but when decided in a decentralized way, they also might be "wasteful" if they only induce a relocation of immigrants across regions within the destination country.

In the context of this theoretical model, the authors show that when states have the responsibility of deciding the amount of resources devoted to the enforcement of immigration policies, they tend to choose relatively high levels of internal enforcement and relatively low levels of border enforcement compared to those chosen by the central government. Moreover, to the extent that unauthorized immigrants benefit from the provision of local public goods but do not entirely pay for the cost of their provision, local governments acting individually will decide to offer lower levels of local public goods compared with the centralized case. The rationale behind these results is that policies chosen by local governments generate spillover effects on other regions because they induce a geographical relocation of unauthorized immigrants. When a state government sets its policies, it neglects the impact they may have on other states. Such "wasteful competition" between state governments disappears when a central government makes those decisions.

The model also suggests that the number of unauthorized immigrants is higher in the decentralized

case than in the centralized case, which, in turn, affects domestic workers and firms in conflicting ways. Particularly, wages tend to be lower and firm profits tend to be higher when each local government decides enforcement levels. In the end, the model indicates that the decentralization of law enforcement activities tends to lower the overall welfare of domestic residents.

Conclusion

The idea of focusing on UI rather than documented immigration to study the drivers of immigration and the impact of immigration on the domestic economy has been quite promising. UI tends to respond more quickly to economic shocks than documented immigration, so a much more accurate connection can be established between economic shocks and immigration. It does, however, have its limitations because measuring UI accurately is challenging.

There is no full consensus among researchers concerning the effect of UI on the domestic economy. Most research seems to indicate that UI may have a negative but small effect on domestic workers with similar skills, but it may complement other groups of domestic workers. Additionally, UI may reduce the prices of certain domestic goods and services. Concerning labor market outcomes, the major negative impact of UI typically falls on previous immigrants.

The ongoing research on UI also has been quite successful at shedding light on other questions, including how the recent shift toward decentralized immigration policies affects different domestic economic outcomes. Such research has shown, among other things, that when lower levels of government get more involved in the enforcement of immigration policies, domestic welfare tends to decline. ■

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Endnotes

- ¹ For more on the methodology of counting unauthorized immigrants, see Santiago Pinto, "[Why It Matters: Counting the Unauthorized Immigrant Population](#)," Federal Reserve Bank of Richmond *Regional Matters*, May 9, 2017.
- ² Michael J. White, Frank D. Bean, and Thomas J. Espenshade, "[The U.S. 1986 Immigration Reform and Control Act and Undocumented Migration to the United States](#)," *Population Research and Policy Review*, May 1990, vol. 9, no. 2, pp. 93–116.
- ³ Pia M. Orrenius and Madeline Zavodny, "[Self-Selection among Undocumented Immigrants from Mexico](#)," *Journal of Development Economics*, October 2005, vol. 78, no. 1, pp. 215–240.
- ⁴ David Card, "[The Impact of the Mariel Boatlift on the Miami Labor Market](#)," *Industrial and Labor Relations Review*, January 1990, vol. 43, no. 2, pp. 245–257.
- ⁵ See George J. Borjas, "[The Labor Demand Curve Is Downward Sloping: Reexamining the Impact of Immigration on the Labor Market](#)," *Quarterly Journal of Economics*, November 2003, vol. 118, no. 4, pp. 1335–1374; and George J. Borjas and Lawrence F. Katz, "The Evolution of the Mexican-Born Workforce in the United States" in *Mexican Immigration to the United States* (George J. Borjas, ed.) Chicago: University of Chicago Press, 2007: pp. 13–55.
- ⁶ Gianmarco I.P. Ottaviano and Giovanni Peri, "[Rethinking the Effect of Immigration on Wages](#)," *Journal of the European Economic Association*, February 2012, vol. 10, no. 1, pp. 152–197.
- ⁷ See Gianmarco I.P. Ottaviano, Giovanni Peri, and Greg C. Wright, "[Immigration, Offshoring, and American Jobs](#)," *American Economic Review*, August 2013, vol. 103, no. 5, pp. 1925–1959; and Andri Chassamboulli and Theodore Palivos, "[A Search-Equilibrium Approach to the Effects of Immigration on Labor Market Outcomes](#)," *International Economic Review*, February 2014, vol. 55, no. 1, pp. 111–129.
- ⁸ Patricia Cortes, "[The Effect of Low-Skilled Immigration on U.S. Prices: Evidence from CPI Data](#)," *Journal of Political Economy*, June 2008, vol. 116, no. 3, pp. 381–422.
- ⁹ Gordon H. Hanson and Antonio Spilimbergo, "[Illegal Immigration, Border Enforcement, and Relative Wages: Evidence from Apprehensions at the U.S.-Mexico Border](#)," *American Economic Review*, December 1999, vol. 89, no. 5, pp. 1337–1357.
- ¹⁰ Sarah Bohn and Todd Pugatch, "[U.S. Border Enforcement and Mexican Immigrant Location Choice](#)," *Demography*, October 2015, vol. 52, no. 5, pp. 1543–1570.
- ¹¹ Pia M. Orrenius and Madeline Zavodny, "[The Impact of E-Verify Mandates on Labor Market Outcomes](#)," *Southern Economic Journal*, April 2015, vol. 81, no. 4, pp. 947–959.
- ¹² Anita Alves Pena, "[Undocumented Immigrants and the Welfare State: The Case of Regional Migration and U.S. Agricultural Labor](#)," *Journal of Regional Science*, January 2014, vol. 54, no. 1, pp. 96–113.
- ¹³ Subhayu Bandyopadhyay and Santiago M. Pinto, "[Unauthorized Immigration and Fiscal Competition](#)," *European Economic Review*, February 2017, vol. 92, pp. 283–305.

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