

Immigration and the U.S. Economy: Labor-Market Impacts, Illegal Entry, and Policy Choices

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Executive Summary

Since the 1960s, the United States has undergone a surge in immigration. The share of the U.S. population that is foreign born surpassed 10% in 2000, with new immigrants accounting for nearly half of recent U.S. population growth. Three policy issues are central to the current debate about immigration. One is what should be the level and composition of legal immigration. The United States admits relatively large numbers of immigrants with low levels of education and other discernible skills. Rising immigration of the less skilled may lower wages of native workers. A second issue is what to do about illegal immigration. Illegal aliens account for one third of new U.S. immigrants. An open question is whether U.S. policy should attempt to replace illegal immigration with large-scale temporary immigration of foreign workers. A third issue is whether immigrants should be eligible for public assistance. Denying eligibility could reduce immigration and lower fiscal transfers from natives to immigrants.

In this paper, we examine immigration in the United States over the last several decades in order to gauge the potential for and the consequences of changes in U.S. immigration policy. Our study has six main sections, following an introduction.

In section 2, we review U.S. immigration policy and trends. Current U.S. policy sets a quota on overall immigration, with first priority for admissions given to family members of U.S. citizens and legal residents. In recent years, fewer than 15% of new immigrants have been admitted based on their skill level. Whether intended or not, this policy favors immigrants with relatively little schooling. Recent immigrants tend to concentrate in specific regions and industries, and tend to earn much less than natives.

In section 3, we consider how U.S. regional economies adjust to immigrant inflows. Despite the geographic concentration of recent immigrants, wages have not fallen perceptibly in the gateway communities in which immigrants settle. Regions have adjusted to immigrant inflows through other mechanisms, including skill upgrading of the native labor force, outmigration of native workers, and shifts in output mix towards immigrant-intensive industries. If education levels of the U.S. labor force stabilize, as they are expected to do, the wage impacts of immigration may be more pronounced.

In section 4, we examine the factors that influence U.S. illegal immigration. Most illegal immigrants enter the country either by crossing the Mexico-U.S. border or by overstaying entry visas. Mexico is the largest source country for illegal immigration and illegal entry tends to surge following economic downturns in the country. The U.S. government impedes illegal immigration by policing borders and monitoring employers, with the vast majority of resources dedicated to border enforcement. These efforts appear to have had limited success, as the inflow of illegal immigrants continues unabated.

In section 5, we examine the fiscal impact of immigration. Prior to U.S. welfare reform in 1996, immigrants were more likely than natives to receive public assistance. New laws restrict immigrant access to many benefits, one important exception being costly public education. For some types of public assistance, individual U.S. states have the discretion to offer benefits after

an individual has been in the country for at least five years. Excluding immigrants from public assistance has been subject to numerous judicial challenges. Despite immigrant use of public assistance, the net fiscal transfer from natives to immigrants appears to be very small at the national level, though it is higher in a few specific states that have both generous welfare benefits and large immigrant populations. In general, the older and the less educated the adult immigrant population is, the larger are native-to-immigrant net fiscal transfers.

In section 6, we examine the political economy of U.S. immigration policy. We find that individual opinions about immigration policy are influenced by expectations about its impact on outcomes in the labor market and on public services and the welfare state. In particular, less-skilled workers and political conservatives are among those most opposed to freer immigration. Congressional representatives seem to respond to these concerns in their districts when voting on legislation.

In section 7, we conclude by discussing current policy choices facing the United States. Key decisions for U.S. policy makers include whether to replace family-based immigration with skills-based immigration, whether to continue to exclude immigrants from access to public assistance, whether to expand temporary immigration, and how to balance border and interior policing in enforcing against illegal immigration.

Policy Recommendations

U.S. immigration policies based on family reunification have been associated with rising immigration of the less skilled. An alternative policy would be to admit immigrants based on their human capital. A shift in immigration policy to favor the admission of young, highly skilled workers might tend to reduce any negative impacts of immigration on low-skilled native workers, enhance the U.S. comparative advantage in knowledge-intensive industries, and generate positive net fiscal transfers from immigrants to natives. The first two effects would operate through labor supply. Increasing the relative supply of more-skilled workers may increase the wages of less-skilled workers, in both relative and real terms. A larger supply of more-skilled labor would also tend to shift the pattern of specialization towards industries that use this factor intensively, including high-technology sectors, finance, and business services. The third effect, of reversing net fiscal transfers from natives to immigrants, reflects the fact that young, highly educated immigrants have had their schooling financed abroad and stand to make U.S. tax contributions over most of their working life. Given their high earnings ability, these individuals are also unlikely to use public assistance.

To the extent U.S. objectives in setting immigration policy are to soften the economic impact on low-skilled natives, strengthen the country's position in knowledge-intensive industries, and avoid fiscal transfers from natives to immigrants, replacing family-based immigration with skills-based immigration is a logical choice. Skills-based immigration might have several important limitations relative to these objectives, however. One is simply that the presumed impacts on less-skilled wages and fiscal transfers might be quite small. A second limitation is that favoring young, highly skilled immigrants may contribute to "brain drain" from poorer countries, which might undermine development prospects in such countries. And a third limitation is that in the long run, the distinction between skills and family-based immigration policies may not be so sharp. Given political pressures from immigrant and civil rights groups and the U.S. tradition of family-based immigration, the United States may find it difficult to admit only skilled individuals and not their less-skilled family members.

To limit fiscal transfers to immigrants, an alternative policy would be to expand laws that directly exclude immigrants from access to public assistance. However, recent U.S. examples demonstrate that such legislative exclusions are often challenged judicially, with courts limiting these laws. More broadly, there is ongoing discussion as to whether excluding immigrant access to public assistance violates the U.S. Constitution. For instance, the largest transfer most immigrants receive is in the form of public education, to which it is both politically and legally difficult to restrict the access of immigrants—legal or illegal. All this suggests that a more effective means of limiting immigrant fiscal transfers might be the indirect method of admitting immigrants who are likely to make positive net fiscal contributions—e.g., the more-skilled.

A switch from family to skills-based immigration may also alter the behavior of illegal immigrants. Individuals who find themselves cut off from opportunities for legal immigration—such as less-skilled relatives of U.S. residents—may choose to immigrate illegally. This switch may therefore increase attempts at illegal immigration. If the U.S. objective is to not increase illegal immigration, then complementary policies are needed. That said, the recent tide of illegal immigrants into the United States suggest that the overall number of illegals has not been greatly affected by the current U.S. policy mix of heavy border enforcement, light interior enforcement, and low levels of temporary immigration of manual laborers.

To reduce the total inflow of illegals, one policy option might be to increase temporary immigration of manual laborers. This would seek to replace an unregulated, long-run supply of illegal workers with a regulated, short-run supply of legal workers. In theory, large-scale temporary immigration would curtail illegal immigration if U.S. firms viewed illegal workers and temporary legal workers as close substitutes and if potential migrants viewed temporary migration as reasonably comparable to illegal migration. There are reasons to doubt that this latter condition holds. Even if temporary immigration were to succeed in reducing illegal immigration, the question remains of what objective would have been achieved. If temporary immigrants and illegal immigrants translate into roughly the same shift in relative labor supplies, then they will have roughly the same impacts on wages and industry mix. And the impact of the two inflows on fiscal balances may also be roughly similar.

To reduce the total inflow of illegals, a different policy option would be to increase employer monitoring. U.S. law forbids firms from hiring illegal aliens, but enforcement appears to be lax. Demand for illegal labor could be reduced by conducting random, unannounced worksite inspections and by levying much larger fines. In turn, this lower demand might reduce illegal entry. The main obstacle to greater employer monitoring appears to be intense political opposition by employers.

It appears that wide-ranging reform of U.S. immigration policy is unlikely in the near future, thanks to the interaction of various constituencies. But as the process of U.S. welfare reform in the mid-1990s demonstrates, pressure and consensus for large policy changes can build very quickly. Our discussion has aimed to clarify how different immigration policies present different trade-offs across different policy objectives.