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# Immigration and the US Economy: Labor Market Impacts, Policy Choices, and Illegal Entry

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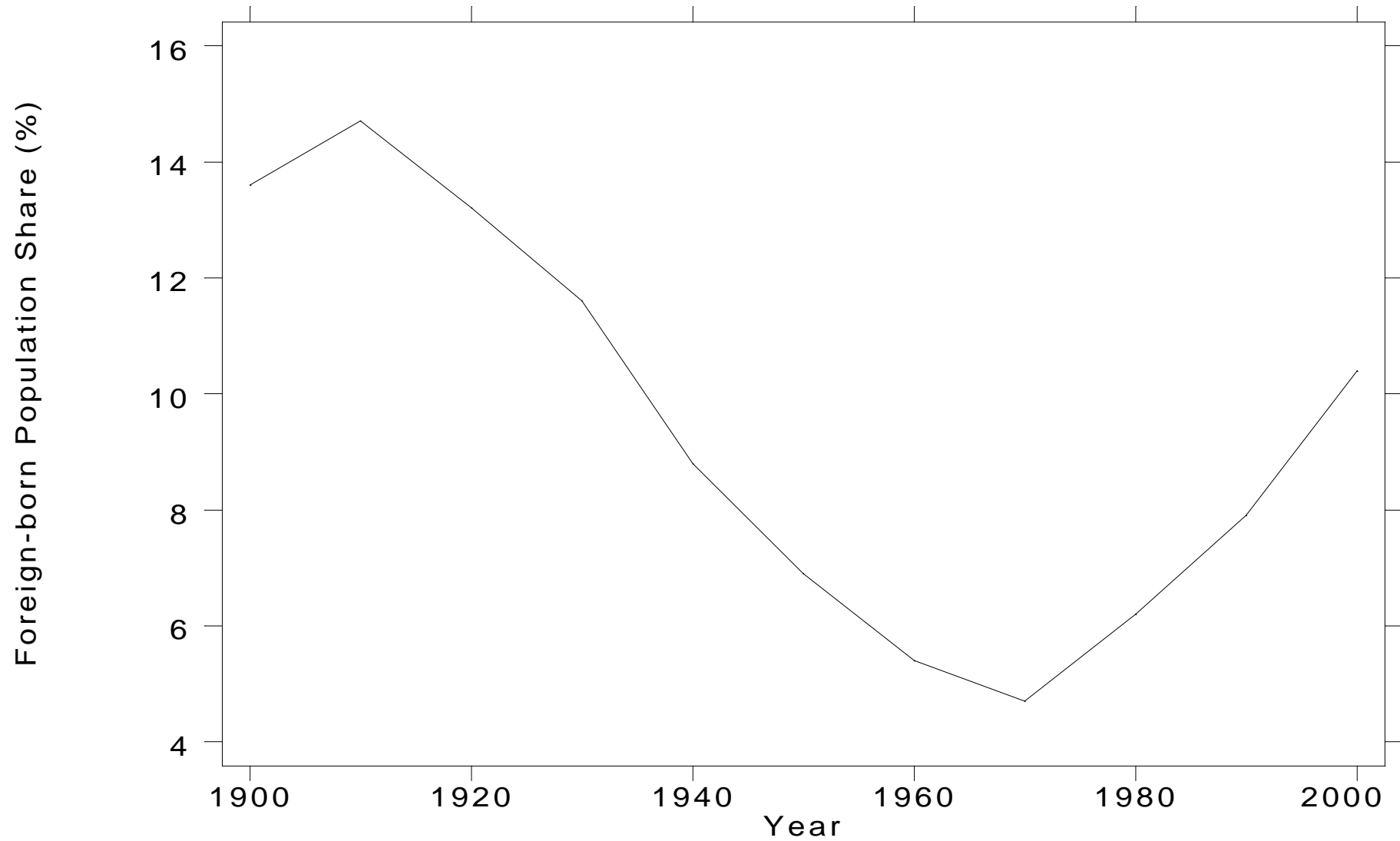


# Introduction

- Immigration is on the rise in the United States
  - Between 1970 and 2000, the foreign born share of the US population increased from 5% to 10%
  - During the 1990s, new immigrants accounted for 40% of total US population growth
  - Illegal immigration has increased, with illegal aliens accounting for 1/3 of new arrivals in the US
- Immigration is an important mechanism for the globalization of the US economy and US immigration policy is a highly contentious aspect of globalization



**Figure 1.1: Share of Foreign Born in US Population**





# Immigration Debate

- Employers in both labor-intensive (agriculture, food processing, apparel) and high-tech (software, electronics) sectors promote immigration as a means to help their industries expand
- But others fear immigration's negative impacts
  - Downward pressure on wages of US workers
  - Increases in the net tax burden on US natives
  - Rising illegal immigration
  - Faster population growth
  - Strains on US social fabric





# US Public Opinion on Immigration

Question: Do you think immigration in the United States should be increased, decreased, or left the same as it is now?

Answers, 1992: Increased a lot: 3%      Increased a little: 5%  
Left the same: 42%  
Decreased a little: 25%      Decreased a lot: 22%

Question: Do you think immigrants help improve our country with their different cultures and talents?

Answers, 1990: Yes: 69%      No: 28%      Don't Know: 3%





# Choices on Immigration Policy

- Current US policy
  - Bases admission decisions on family reunification
  - Excludes immigrants from many welfare benefits
  - Enforces against illegal immigration at US borders
- Alternative policies
  - Base admission decisions on skill level of individuals
  - De-emphasize exclusions from welfare programs
  - Enforce against illegal immigration at place of work
  - Expand temporary immigration





# Outline

- In this document, we examine the key issues in the US immigration debate and the tradeoffs involved in different policy choices
- The study has six parts
  - Overview of immigration policy and trends
  - Labor market impact of immigration
  - Illegal immigration
  - Fiscal impacts of immigration
  - Political economy of immigration policy
  - Conclusion and policy recommendations





# Outline

- Today's presentation will center on four questions

*What is impact of immigration on US labor markets?*

*What is impact of immigration on US public finances?*

*What factors contribute to illegal immigration?*

*What are the advantages and disadvantages of US options on immigration policy?*





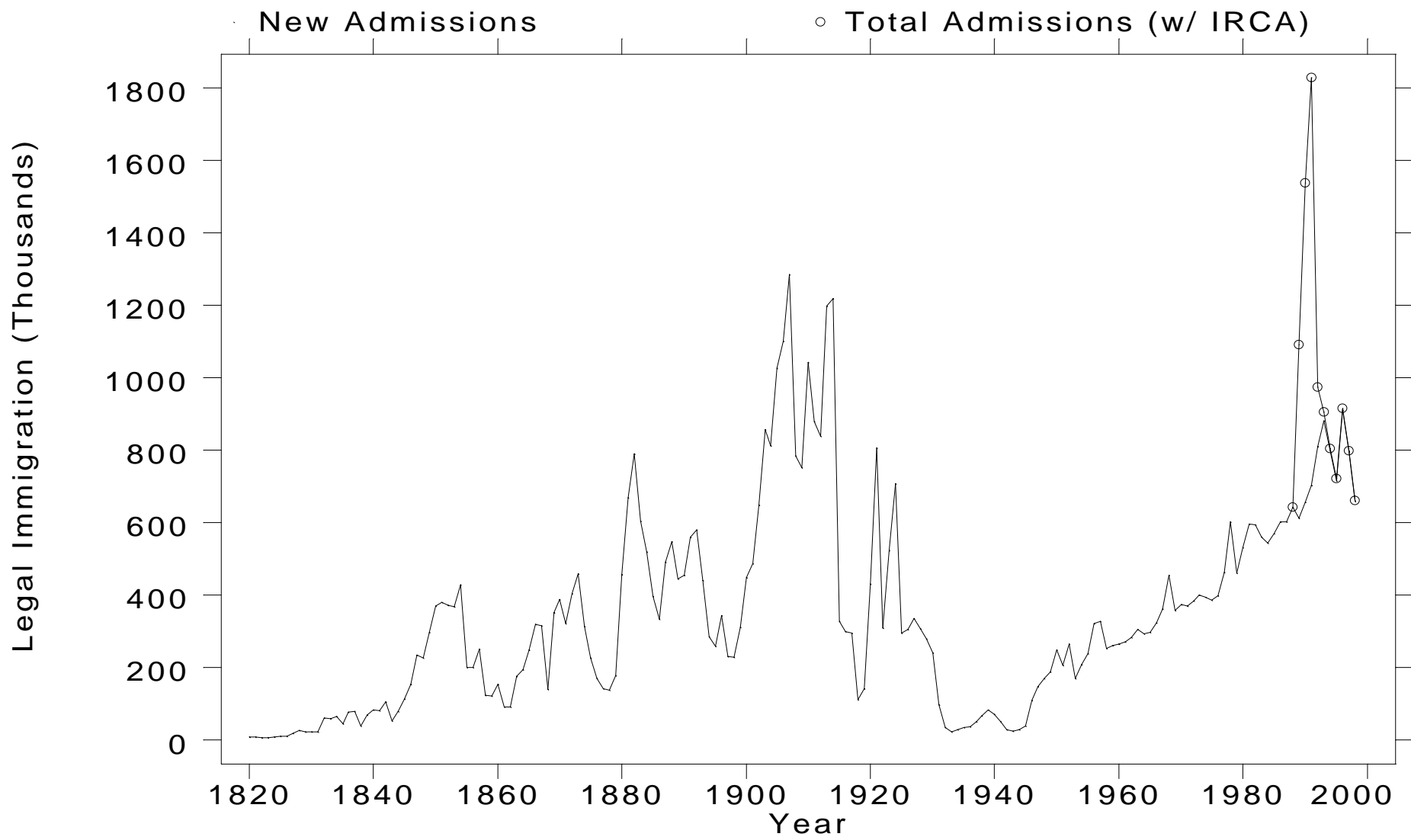


# Brief History of US Immigration Policy

- Legal immigration
  - Open borders (prior to 1924)
    - Few numerical limits on immigration
  - Closed borders (1924-1965)
    - Strict numerical limits on immigration, greatly favoring those from Western Europe
  - Porous borders (1965-present)
    - Legal admissions capped at 675,000 (70% family members of US residents, 20% employment-based)
    - Special entry category for refugees created in 1980



# Figure 2.1: US Legal Immigration



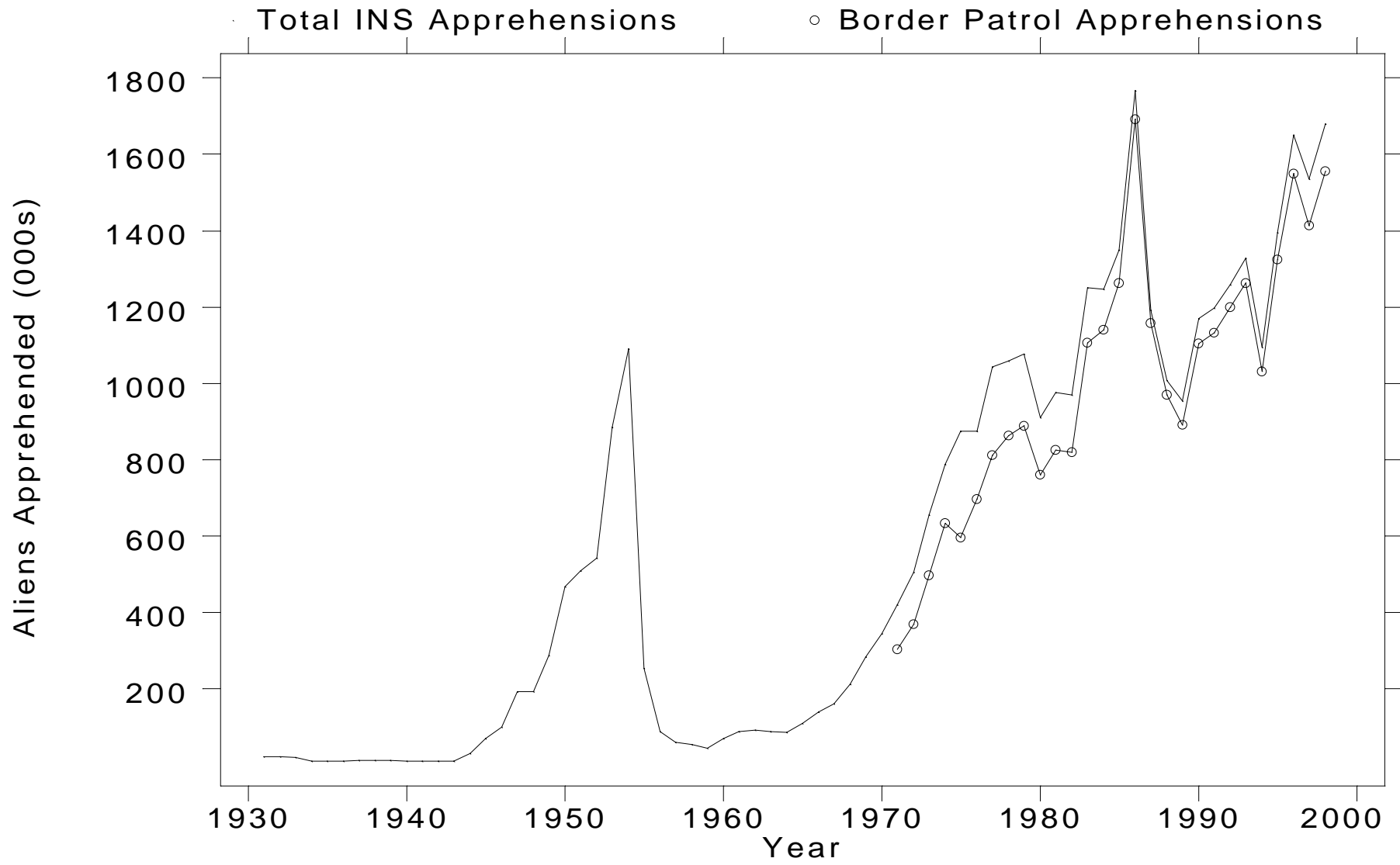


# Brief History of US Immigration Policy

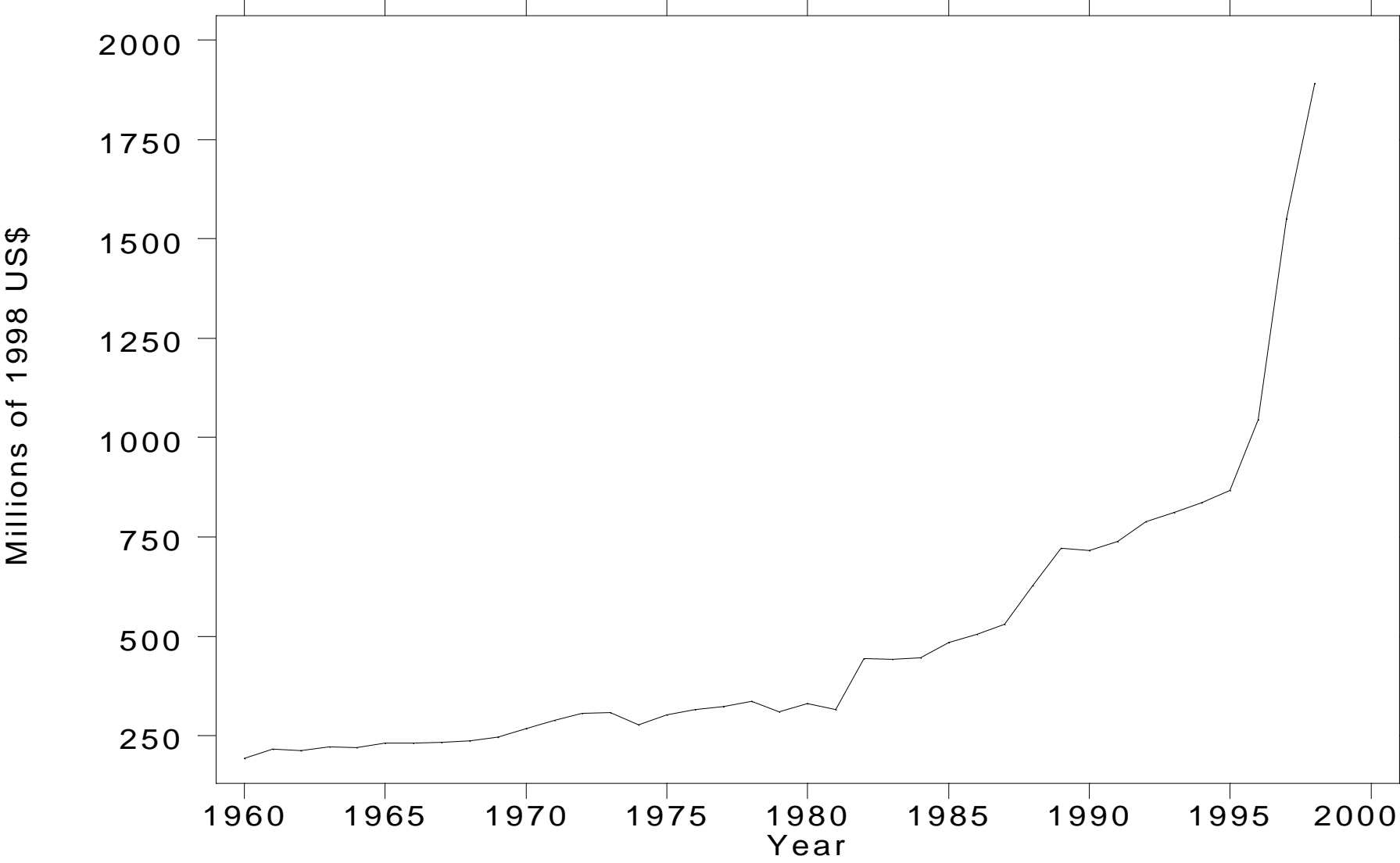
- Illegal Immigration
  - Temporary immigration (1942-1965)
    - Large numbers of temporary farm laborers admitted from Mexico, keeping illegal immigration low
  - Moderate border enforcement (1965-1986)
    - Illegal immigration rose, reaching 150,000-250,000 per year (half of which from Mexico)
  - Heavy border enforcement (1986-present)
    - New laws expand policing of US-Mexico border, criminalize employment of illegal aliens, grant amnesty to long-term illegal immigrants



**Figure 4.2: Illegal Aliens Apprehended by the Immigration and Naturalization Service**



**Figure 4.3: Enforcement Budget of the Immigration and Naturalization Service**





## Stylized Facts about US Immigration

- Immigrants are concentrated at the extremes of the skill distribution
- Immigrants earn less than US natives
- Immigrants concentrate in specific US regions
- Immigrants concentrate in specific occupations
- Immigrants make greater use of public assistance than US natives



**Table 2.1: Changing Skills of Immigrant and Native Populations, 1970-98**

	1970	1998
<b>Native men</b>		
Percent who are high school dropouts	39.7	9.0
Percent who are college graduates	15.4	29.8
Percent with at least a master's degree	--	9.9
<b>Immigrant men</b>		
Percent who are high school dropouts	49.0	33.6
Percent who are college graduates	18.6	28.3
Percent with at least a master's degree	--	12.5
Percent hourly wage differential	0.0	-23.0
between immigrant and native men		
<b>Native women</b>		
Percent who are high school dropouts	35.3	6.6
Percent who are college graduates	11.5	28.5
Percent with at least a master's degree	--	8.7
<b>Immigrant women</b>		
Percent who are high school dropouts	47.9	24.5
Percent who are college graduates	9.7	28.7
Percent with at least a master's degree	--	8.8
Percent hourly wage differential	3.0	-12.1
between immigrant and native women		

**Table 2.2:**  
**Source Countries for Immigration in the United States**  
**(% Distribution)**

	Foreign-Born <u>Pop., 2000</u>	Pre-1970 <u>Arrivals</u>	1990-99 <u>Arrivals</u>
Mexico	27.7	15.0	31.3
Other Latin America	23.4	21.6	22.7
Canada	2.4	7.0	1.7
Europe	15.3	41.3	11.4
East Asia	17.9	9.0	17.2
South Asia	4.6	1.4	6.2
Middle East	3.6	2.4	2.9
Sub-Saharan Africa	1.8	0.4	2.4
Other/Oceania	3.2	2.0	4.1



**Table 2.3: Immigration and Population in US States, 2000**

	State Share of National Population		State Share of Foreign-Born Pop.	
	1990	2000	1990	2000
California	12.0	12.4	32.7	30.9
New York	7.2	6.8	14.4	12.8
Florida	5.2	5.5	8.4	9.8
Texas	6.8	7.3	7.7	8.6
New Jersey	3.1	3.0	4.9	4.3
Illinois	4.6	4.4	4.8	4.1

**Table 2.4: Illegal Immigrants in the United States, 1996**

Country of origin	Population	State of residence	Population
All countries	5,000,000	All states	5,000,000
Mexico	2,700,000	California	2,000,000
El Salvador	335,000	Texas	700,000
Guatemala	165,000	New York	540,000
Canada	120,000	Florida	350,000
Haiti	105,000	Illinois	290,000
Philippines	95,000	New Jersey	135,000
Honduras	90,000	Arizona	115,000
Poland	70,000	Massachusetts	85,000
Others	1,370,000	Others	765,000

**Table 2.5:**  
**Share of Employment by Occupation and Nationality, 2000**

Occupations	Percent Immigrant	Average Wages
Total Workforce	12.8	\$33,921
<b>Low-immigrant Occupations</b>	10.4	\$38,616
Managerial and Professional	10.2	\$49,695
Technical, Sales, Admin. Support	9.0	\$30,542
Farming Managers, Forestry, Fishing	8.8	\$12,447
Precision Production, Craft and Repair	14.0	\$30,949
<b>High-immigrant Occupations</b>	19.3	\$21,674
Operations, Fabricators, Laborers	17.6	\$24,319
Service Occupations, Non-household	18.1	\$19,590
Household Service Occupations	39.7	\$12,195
Farming, Except Managerial	40.3	\$13,233

**Table 5.1: Use of Means-tested Programs  
by Head of Household's Nativity, 2000  
(% of population)**

<b>Welfare Program</b>	<b>Native Households</b>	<b>Immigrant Households</b>
Public Assistance	2.1	3.2
Supplemental Security Income	3.9	5.3
Food Stamps	5.3	6.7
Medicaid	12.1	18.6
Households Using Any of Above	13.3	19.7
Earned Income Tax Credit	13.1	25.5



# Impact of Immigration on Labor Markets

- Relative to the US native population, recent immigrants tend to have low levels of schooling
  - All else equal, the arrival of large numbers of low-skilled immigrants will tend to put *downward pressure* on the wages of low-skilled US workers
  - In the US, where wages are relatively flexible, we expect labor markets to adjust more through wage changes than through changes in unemployment





# Impact of Immigration on Labor Markets

- A large number of academic studies examine whether wages tend to fall in US regions that receive large immigrant influxes (eg, California)
  - Most studies find that US native wages in a given region *fall only slightly* following a rise in the local immigrant population
- How do we account for the apparent insensitivity of regional wages to regional immigrant inflows?
  - Other adjustment mechanisms must play a role





# Regional Adjustment to Immigration

- How have US regions absorbed immigrant inflows?
  - Skill upgrading of native population
  - Changes in migration patterns of native workers
  - Self-selection of immigrants into high-wage regions
  - Changes in regional output mix



**Table 3.3:**  
**US Labor Supplies in Recent Decades**  
**(% of National Labor Force by Education Group)**

Year	High-School Dropouts	High-School Graduates	Some College	College Graduates
1940	76	14	5	5
1950	66	21	7	6
1963	52	30	9	9
1970	45	34	10	11
1979	32	37	15	16
1989	23	39	17	21
1999	17	33	25	25



**Table 3.4: California High-Growth Industries, 1980-1990**

Industry Name	Annualized Growth Rate (%)	Skill Intensity	Immigrant Intensity
Machinery	4.3	15	18
Household Services	3.9	40	6
Apparel	3.9	37	1
Finance, Insurance, Real Estate	2.8	4	36
Textiles	2.5	29	3
Legal Services	2.3	1	40



## Future Prospects

- The skill upgrading of the US population is expected to slow in the future
  - If current immigration patterns persist, US relative supply of less skilled labor would increase
- At the national level, future immigration may lower less-skilled wages and shift US comparative advantage towards labor-intensive sectors
  - This scenario explains support of less-skilled US workers for more restrictions on immigration





# Impact of Immigration on Public Finances

- Do immigrants increase native net tax burdens?
- Reform of US welfare policies in 1996 bars immigrants from many forms of public assistance
- Political conservatives led welfare reform effort and favor more restrictions on immigration due in part to its anticipated negative fiscal consequences





# Impact of Immigration on Public Finances

- Key features of the US tax and welfare systems
  - There is an earned income tax credit
  - Unemployment insurance is self financing, temporary
  - Cash and in-kind transfers are means tested, temporary, subject to discretion of US states
  - As of 1996, legal immigrants are barred from federal means-tested benefits for five years (after which states have discretion) – *doesn't apply to public education*





# Impact of Immigration on Public Finances

- An immigrant is more likely to receive net fiscal transfers from natives if the individual
  - Has low earnings (more likely to receive benefits)
  - Is old (few working, taxpaying years)
  - Has a large family (uses more benefits, education)
- On average, with less schooling, more children, and (among refugees) more old-age family members, immigrants use more public assistance than natives



**Table 5.2: Percent of Households Using Means-Tested Programs by Country of Origin, 2000**

<b>Country</b>	<b>Public Assistance</b>	<b>Supplemental Security Income</b>	<b>Food Stamps</b>	<b>Medicaid</b>	<b>Using Any of These</b>	<b>EITC</b>
Dominican Rep.	15.7	16.0	27.5	53.0	54.0	41.8
Vietnam	1.1	19.6	15.2	26.6	31.1	21.9
Mexico	5.5	4.1	10.2	27.2	28.9	49.2
Jamaica	1.8	5.4	7.1	26.3	26.3	25.4
El Salvador	6.1	3.1	8.0	25.6	26.0	48.5
Cuba	1.5	8.0	14.3	23.3	24.8	17.0
Haiti	3.0	1.2	5.5	15.9	17.1	38.4
China	0.5	6.5	1.9	12.1	12.6	13.3
Korea	0.0	4.7	1.6	7.9	7.9	15.0
India	0.5	1.4	0.9	6.6	7.3	10.7
Canada	0.6	1.2	1.2	2.7	3.6	6.0
UK	0.6	0.6	1.2	2.6	2.9	4.3
All Immigrants	3.2	5.3	6.7	18.6	19.7	25.5
All Natives	2.1	3.9	5.3	12.1	13.3	13.1
<b>Avg. Payment</b>						
Immigrants	\$4,673	\$6,369	-	-	-	\$1,692
Natives	\$3,038	\$4,926	-	-	-	\$1,456



# Impact of Immigration on Public Finances

- Despite greater use of public assistance, estimated net fiscal transfers by natives to immigrants are small: \$200 annually per native household
  - US welfare system isn't very generous and has become less generous over time
  - Transfers are higher in California, with a large poor immigrant population and more generous benefits
  - The largest single item that contributes to these fiscal transfers is public education



**Table 5.4:**  
**Percent of School Children with Immigrant Mothers, 2000**

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	<b>School-Age Pop.</b> <b>(5-17 years)</b>	<b>Young Children</b> <b>(0-4 years)</b>
<b>1. California</b>	43.3	45.0
<b>2. New York</b>	27.1	27.6
<b>3. Florida</b>	28.1	22.1
<b>4. Texas</b>	22.0	23.1
<b>5. New Jersey</b>	22.1	21.4
<b>6. Illinois</b>	15.2	18.0
<b>7. Massachusetts</b>	17.1	12.7
<b>8. Arizona</b>	23.1	29.9
<b>Entire Country</b>	16.3	17.6

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**Table 5.5:**  
**Local, State, and Federal Expenditures and Revenues**  
**by Foreign-Born and Native Households in California**  
(1996 Dollars)

	<b>California</b>	
	<b>Foreign-Born</b>	<b>Native</b>
<b>Expenditures</b>		
Local	6,208	5,290
<i>Of which K12 education</i>	<i>1,581</i>	<i>768</i>
State	4,973	2,510
<i>Of which K12 education</i>	<i>2,496</i>	<i>1,212</i>
Federal	13,326	13,625
<b>Revenues</b>		
Local	5,377	5,573
State	2,341	3,405
Federal	10,644	16,347
<b>Fiscal Balance</b>		
Local	-831	283
State	-2,632	895
Federal	-2,682	2,722



## Future Prospects

- Policies to exclude immigrants from welfare system may not have large impacts on US public finances
  - Native-to-immigrant transfers are small to begin with
  - Some states may choose to replace lost federal benefits with state-funded payments
  - Largest expenditure item is public education, from which immigrants (legal or illegal) cannot be barred
  - Excluding legal immigrants from public assistance may violate US Constitution, invite legal challenges





# Illegal Immigration

- Of the US foreign-born population of 28.4 million, approximately 6.5 million are illegal immigrants
  - Mexico is the largest source country accounting for over half of all illegal immigrants
- Each year, 300,000 illegal immigrants enter the US, accounting for 1/3 of current immigration
  - Half enter by illegally crossing the US-Mexico border; half enter by overstaying temporary entry visas
- In 1980s and 1990s, the US dramatically increased border enforcement, without obvious success



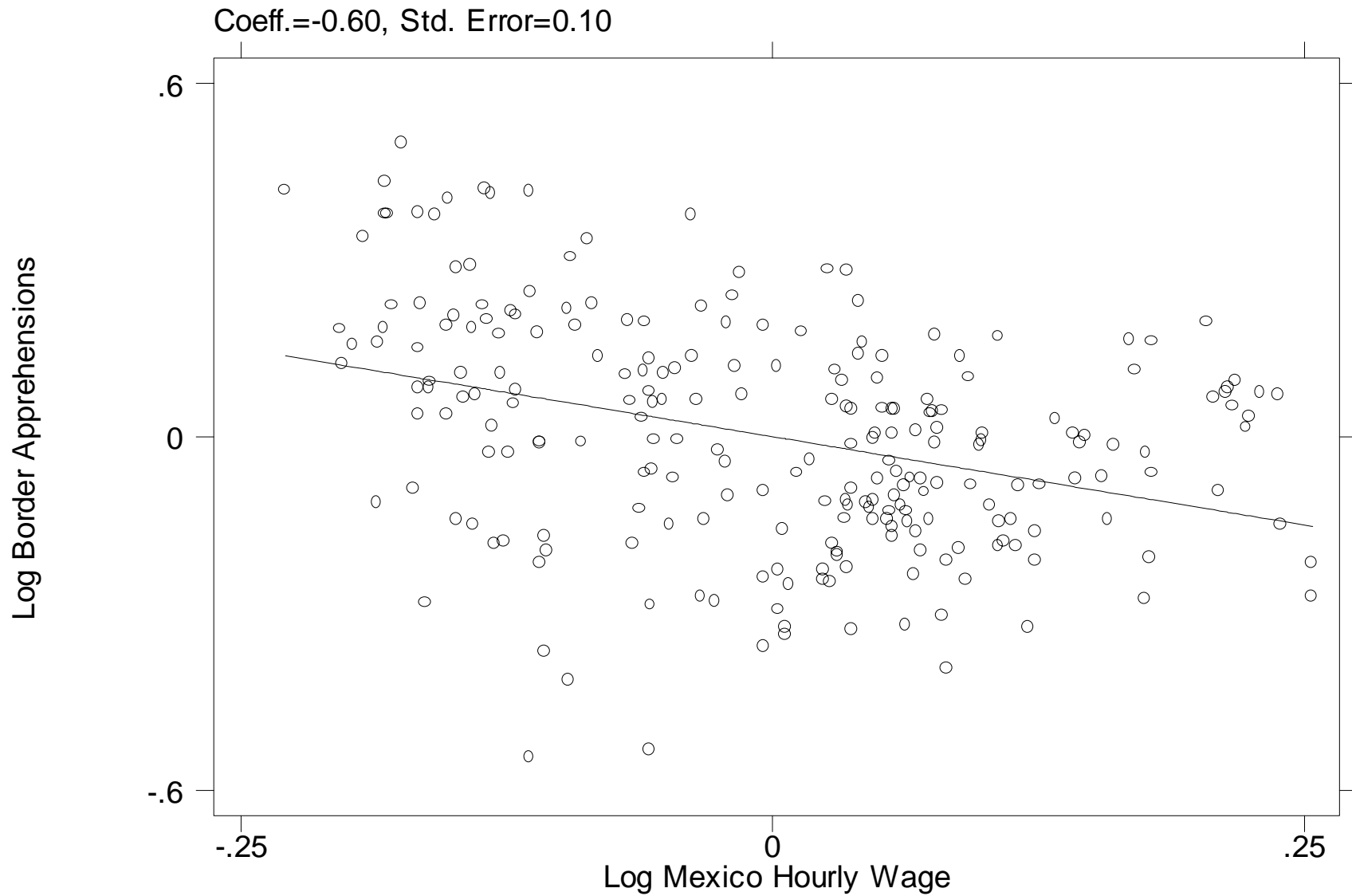


# Illegal Immigration

- Illegal immigration appears driven by large and variable US-Mexico wage differentials
  - Attempted illegal immigration in the US surges following economic downturns in Mexico
- Changing composition of illegal immigrants
  - Illegal immigration began to rise after large-scale temporary immigration ended in the 1960s
  - Historically, most illegal immigrants have been young men coming to US to work as farm laborers
  - Today, illegal migrants are more likely to be female, urban residents, educated, and settled in the US



**Figure 4.6: Border Apprehensions and Mexican Wages**





# Enforcement against Illegal Immigration

- US policy on illegal immigration:
  - Border Patrol polices US-Mexico border, apprehends and deports those attempting to enter country illegally
    - Centerpiece of US policy: 11,000 officers police border, concentrating on special operations at heavy crossing points
  - Government agents monitor US employers suspected of hiring illegal aliens, issue fines to those they catch
    - Employer monitoring appears lax, with 300 agents to inspect all US worksites; few fines are levied (most are small)
  - Employer-sponsored, temporary immigration of manual laborers as alternative to illegal immigration
    - Currently small scale, with 60,000-70,000 migrants per year



**Table 4.1: Illegal Aliens Apprehended by Activity**

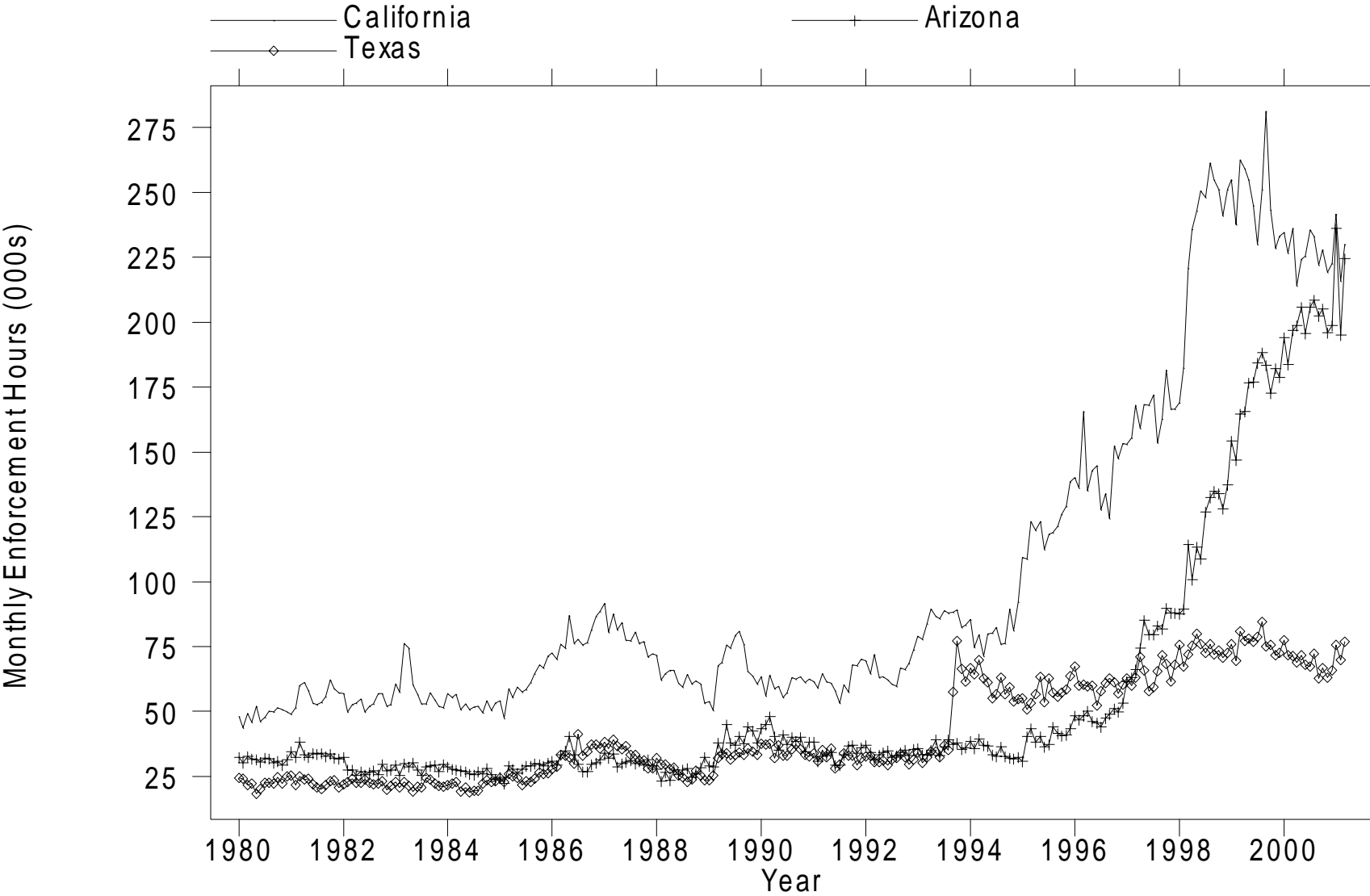
Year	Mexican Nationals Apprehended by U.S. Border Patrol	Of Which	
		Working in Agriculture	Working Elsewhere
1992	1,168,946	5,488	7,165
1993	1,230,124	5,393	7,403
1994	999,980	5,162	8,068
1995	1,293,508	4,487	12,552
1996	1,523,141	2,684	9,413
1997	1,387,650	3,521	10,146
1998	1,522,918	3,270	6,616

**Table 4.2: Investigation of Employers by the  
Immigration and Naturalization Service**

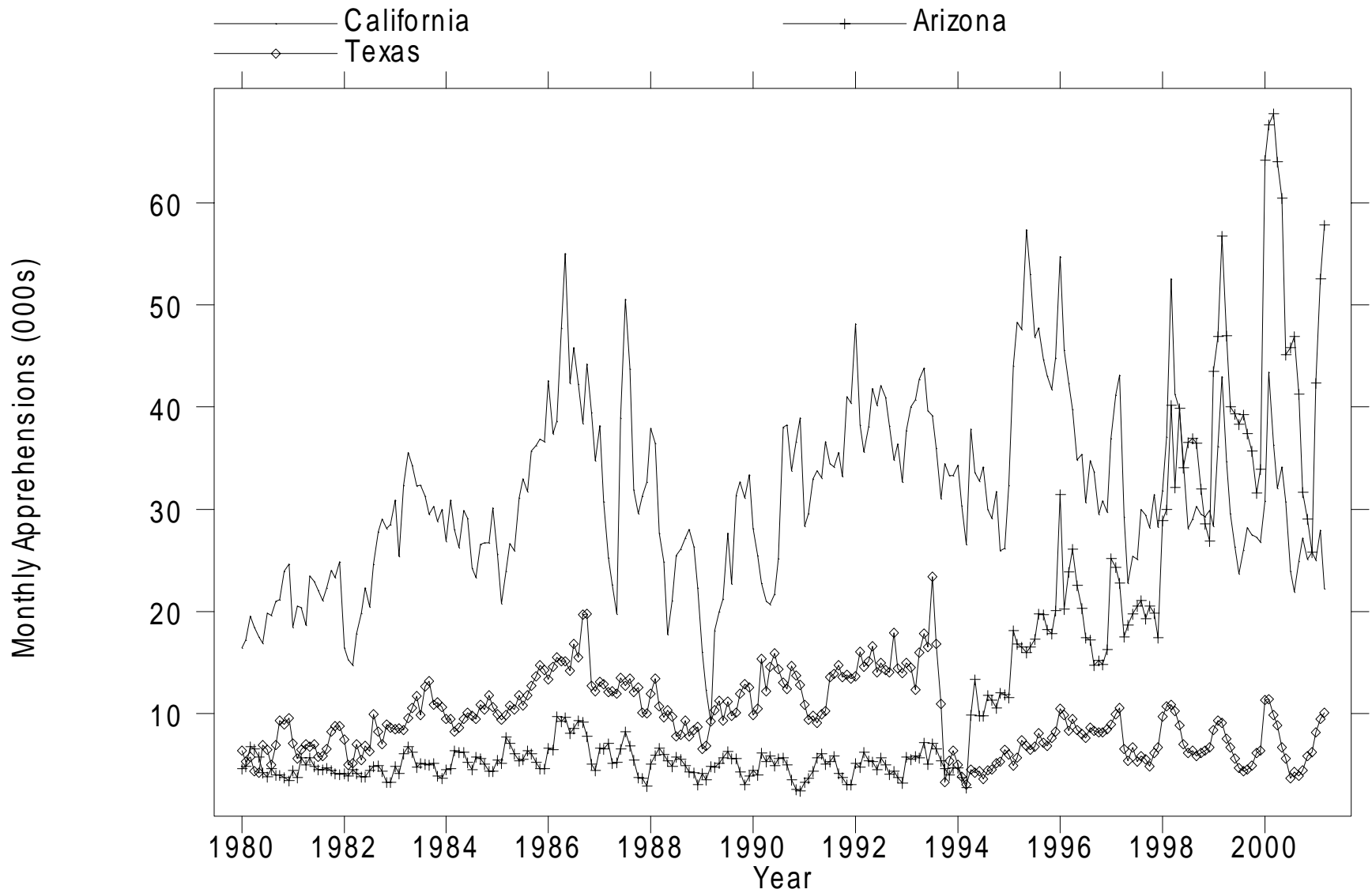
Year	Investigations of Employers	Sanctions Imposed	Fines above \$20,000
1992	7,053	777	10
1993	6,237	799	14
1994	6,169	737	13
1995	5,283	792	16
1996	5,149	689	20
1997	7,537	451	9
1998	7,795	235	9



**Figure 4.5a: Border Enforcement by the US Border Patrol**



**Figure 4.4a: Border Apprehensions by the US Border Patrol**





## Future Prospects

- Current US policy: strong border enforcement, weak employer monitoring and low temporary immigration
  - Appears to have failed to reduce illegal immigration
  - Greater monitoring strongly opposed by US employers
- A resumption of large-scale temporary immigration is being proposed as a solution
  - Would involve coordination with Mexico
  - Would replacing illegal immigration with temporary legal immigration alter its economic impacts?





# Summary

- Key issues in the debate on US immigration policy
  - *Level and composition of immigration*
    - Immigration of the less skilled has been rising, but without clear negative wage impacts for US workers
  - *Public-finance impact of immigration*
    - Immigrants use more public assistance than natives, but native-to-immigrant fiscal transfers are small and welfare reform cuts immigrant access to many benefits
  - *Controlling illegal immigration*
    - Increase in border enforcement has not slowed illegal immigration (employer monitoring remains weak)





## Policy Alternatives

- Replace family reunification with a skills-based criterion for the admission of new immigrants
  - Intended effects of policy change
    - Soften wage impacts of immigration on the less skilled
    - Decrease native-to-immigrant net fiscal transfers
    - Strengthen US position in knowledge-intensive sectors
  - Possible shortcomings
    - Increase brain drain from poor countries
    - Skilled immigrants may bring less-skilled relatives
    - Political opposition from immigrants, employers in labor-intensive sectors, some civil-rights groups





## Policy Alternatives

- Maintain and extend exclusions on immigrant access to public assistance
  - Intended effects of policy change
    - Reduce native-to-immigrant fiscal transfers
    - Reduce perverse incentives for immigration
  - Possible shortcomings
    - Small impact on native net tax burden (transfers small to begin with, can't exclude access to public education)
    - May violate US Constitution, provoke legal challenges, increase domestic political conflict
    - Less effective than changing immigrant skill mix





## Policy Alternatives

- Maintain strong border enforcement, while enacting large-scale temporary legal immigration
  - Intended effects of policy change
    - Turn long-run illegal inflow into short-run legal inflow
  - Possible shortcomings
    - Economic impacts of immigration may be unchanged
    - May be politically infeasible to set temporary legal inflow high enough to curtail illegal immigration
    - Temporary migrants have weak investment incentives
    - Border enforcement is less effective than employer monitoring (random inspections, heavy fines)

