

The Economic Logic Of Illegal Immigration

by Gordon H. Hanson

INTRODUCTION

Illegal immigration is a source of mounting concern for politicians in the United States. In the past ten years, the U.S. population of illegal immigrants has risen from five million to nearly twelve million, prompting angry charges that the country has lost control over its borders.^[1] Congress approved measures last year that have significantly tightened enforcement along the U.S.-Mexico border in an effort to stop the flow of unauthorized migrants, and it is expected to make another effort this year at the first comprehensive reform of immigration laws in more than twenty years.

Legal immigrants, who account for two-thirds of all foreign-born residents in the United States and 50 to 70 percent of net new immigrant arrivals, are less subject to public scrutiny. There is a widely held belief that legal immigration is largely good for the country and illegal immigration is largely bad. Despite intense differences of opinion in Congress, there is a strong consensus that if the United States could simply reduce the number of illegal immigrants in the country, either by converting them into legal residents or deterring them at the border, U.S. economic welfare would be enhanced. Is there any evidence to support these prevailing views? In terms of the economic benefits and costs, is legal immigration really better than illegal immigration? What should the United States as a country hope to achieve economically through its immigration policies? Are the types of legislative proposals that Congress is considering consistent with these goals?

This Council Special Report addresses the economic logic of the current high levels of illegal immigration. The aim is not to provide a comprehensive review of all the issues involved in immigration, particularly those related to homeland security. Rather, it is to examine the costs, benefits, incentives, and disincentives of illegal immigration within the boundaries of economic analysis. From a purely economic perspective, the optimal immigration policy would admit individuals whose skills are in shortest supply and whose tax contributions, net of the cost of public services they receive, are as large as possible. Admitting immigrants in scarce occupations would yield the greatest increase in U.S. incomes, regardless of the skill level of those immigrants. In the United States, scarce workers would include not only highly educated individuals, such as the software programmers and engineers employed by rapidly expanding technology industries, but also low-skilled workers in construction, food preparation, and cleaning services, for which the supply of U.S. native labor has been falling. In either case, the national labor market for these workers is tight, in the sense that U.S. wages for these occupations are high relative to wages abroad.

Of course, the aggregate economic consequences of immigration policy do not account for other important considerations, including the impact of immigration on national security, civil rights, or political life.^[2] Illegal immigration has obvious flaws. Continuing high levels of illegal immigration may undermine the rule of law and weaken the ability

of the U.S. government to enforce labor-market regulations. There is an understandable concern that massive illegal entry from Mexico heightens U.S. exposure to international terrorism, although no terrorist activity to date has been tied to individuals who snuck across the U.S.-Mexico border.^[3] Large inflows of illegal aliens also relax the commitment of employers to U.S. labor-market institutions and create a population of workers with limited upward mobility and an uncertain place in U.S. society. These are obviously valid complaints that deserve a hearing in the debate on immigration policy reform. However, within this debate we hear relatively little about the actual magnitude of the costs and benefits associated with illegal immigration and how they compare to those for legal inflows.

This analysis concludes that there is little evidence that legal immigration is economically preferable to illegal immigration. In fact, illegal immigration responds to market forces in ways that legal immigration does not. Illegal migrants tend to arrive in larger numbers when the U.S. economy is booming (relative to Mexico and the Central American countries that are the source of most illegal immigration to the United States) and move to regions where job growth is strong. Legal immigration, in contrast, is subject to arbitrary selection criteria and bureaucratic delays, which tend to disassociate legal inflows from U.S. labor-market conditions.^[4] Over the last half-century, there appears to be little or no response of legal immigration to the U.S. unemployment rate.^[5] Two-thirds of legal permanent immigrants are admitted on the basis of having relatives in the United States. Only by chance will the skills of these individuals match those most in demand by U.S. industries. While the majority of temporary legal immigrants come to the country at the invitation of a U.S. employer, the process of obtaining a visa is often arduous and slow. Once here, temporary legal workers cannot easily move between jobs, limiting their benefit to the U.S. economy.

There are many reasons to be concerned about rising levels of illegal immigration. Yet, as Congress is again this year set to consider the biggest changes to immigration laws in two decades, it is critical not to lose sight of the fact that illegal immigration has a clear economic logic: It provides U.S. businesses with the types of workers they want, when they want them, and where they want them. If policy reform succeeds in making U.S. illegal immigrants more like legal immigrants, in terms of their skills, timing of arrival, and occupational mobility, it is likely to lower rather than raise national welfare. In their efforts to gain control over illegal immigration, Congress and the administration need to be cautious that the economic costs do not outstrip the putative benefits.

Endnotes

¹ Jeffrey S. Passel, "Estimates of the Size and Characteristics of the Undocumented Population," Pew Hispanic Center, 2006. Estimates of the illegal immigrant population are imprecise. They are based on comparing the actual number of immigrants (as enumerated in household population surveys) with the number of immigrants admitted through legal means. The stock of illegal immigrants is taken to be the difference between these two values (after accounting for mortality and return migration). See

Jennifer Van Hook, Weiwei Zhang, Frank D. Bean, and Jeffrey S. Passel, "Foreign-Born Emigration: A New Approach and Estimates Based on Matched CPS Files," *Demography*, Vol. 43, No. 2 (May 2006), pp. 361–82, for a discussion of recent academic literature on estimation methods and on how existing estimates of the stock of illegal immigrants may not fully account for emigration among this population.

² See Samuel P. Huntington, *Who Are We? The Challenges to America's National Identity* (New York: Simon and Schuster, 2004), and Patrick J. Buchanan, *State of Emergency: The Third World Invasion and Conquest of America* (New York: Thomas Dunne, 2006).

³ According to Rep. Tom Tancredo (R–CO), a leading congressional opponent of immigration, "There are nine to eleven million illegal aliens living amongst us right now, who have never had a criminal background check and have never been screened through any terrorism databases. Yet the political leadership of this country seems to think that attacking terrorism overseas will allow us to ignore the invitation our open borders presents to those who wish to strike us at home" (<http://www.house.gov/tancredo/Immigration/>, accessed on October 31, 2006). Former presidential candidate Pat Buchanan adds, "The enemy is already inside the gates. How many others among our eleven million 'undocumented' immigrants are ready to carry out truck bombings, assassinations, sabotage, skyjackings?" ("U.S. Pays the High Price of Empire," *Los Angeles Times*, September 18, 2001.) See also Steven A. Camarota, *The Open Door: How Militant Islamic Terrorists Entered and Remained in the United States*, Center for Immigration Studies Paper No. 21 (2002).

⁴ Susan Martin, "U.S. Employment-Based Admissions: Permanent and Temporary," Migration Policy Institute Policy Brief No. 15 (January 2006).

⁵ James Hollifield and Valerie F. Hunt find that, over the period of 1891–1945, there is a negative correlation between U.S. legal immigration and the U.S. unemployment rate, indicating that immigrant inflows are larger when U.S. labor markets are tighter. After 1945, this relationship breaks down. See James F. Hollifield and Valerie F. Hunt, "Immigrants, Markets, and Rights: The US as an Emerging Migration State," paper prepared for presentation at the Migration Ethnicity Meeting (MEM) at IZA in Bonn, Germany, May 13–16, 2006.

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