

**Testimony before the U.S. Senate Committee on Homeland Security and
Governmental Affairs
Securing the Border: Defining the Current Population Living in the Shadows
and Addressing Future Flows**

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Chairman Johnson, Senator Carper, and Members of the Committee, thank you for inviting me to appear here today to discuss unauthorized immigration to the United States and guest worker programs. In the testimony that follows, I will first discuss why people become unauthorized immigrants. I will then discuss what we know about unauthorized immigrants in the U.S. labor market. At the end, I will discuss how future guest worker programs can affect immigration flows and the U.S. economy.

Why do people become unauthorized immigrants?

Estimates suggest there are 11-plus million unauthorized immigrants living in the United States. About 8.5 million of them are in the workforce, accounting for about 5 percent of all workers. Most of these immigrants crossed the border unlawfully, but a sizable share entered with a valid visa and have since overstayed that visa or violated its terms, such as working while on a non-work visa. The most important fact to understand about unauthorized immigrants is that almost none of them *want* to be unauthorized—they either have no way to attain legal status, or the pathway to legal status is so onerous that they believe they are better off remaining unauthorized. This is due to the many complexities—and the many failures—of U.S. immigration policy.

Simply put, our current immigration system results in large numbers of unauthorized immigrants because, although there is a large, broad-based demand for these workers, it is extremely hard for most people to receive a visa to live and work in the United States legally. People who are not the immediate relative of a U.S. citizen and who are not highly skilled face a long wait for legal permanent residency *if* they can find an eligible U.S. relative or a U.S. employer willing to sponsor them. Meanwhile, the H-2A and H-2B temporary foreign worker programs are cumbersome and costly for employers to use and, in the case of the H-2B program, capped at 66,000 visas per year. As a result, most employers hire unauthorized immigrants instead of using those programs: The number of workers hired through the H-2A and H-2B programs annually is equivalent to about 1.3 percent of the unauthorized immigrant workforce in the United States.

During the 1990s and early 2000s, the combination of strong demand for immigrant workers, a ready supply of people who wanted to work in the United States, even illegally, fairly lax workplace enforcement and a restrictive system for temporary and permanent visas resulted in a surge in the unauthorized immigrant workforce. The unauthorized population peaked in 2007, and then shrank slightly during the Great Recession of 2007-2009. It has since resumed growing, but at a much slower pace than before the recession.

Most unauthorized immigrants are relatively low skilled. Unauthorized immigrants are usually not able to access high-skilled jobs, so there is little incentive for high-skilled foreigners to become unauthorized immigrants. In addition, the vast majority of unauthorized immigrants are from Mexico and Central America, a region with lower average education levels than the United States.

The wage gains to immigrant workers are considerable, and the unauthorized are no exception. Although research suggests that unauthorized immigrants earn less than they would if they had legal status, unauthorized immigrants earn far more than they would in their origin country.¹

¹ Studies suggest wage gains of about 6-13% from acquiring legal status, suggesting a wage penalty for lacking legal status. The studies include Rivera-Batiz, F.L. (1999), "Undocumented Workers in the Labor Market: An Analysis of

Michael Clemens, Claudio E. Montenegro and Lant Pritchett show that the average Mexican worker who migrates to the United States earns about 2.5 times as much as he would in Mexico, taking into account differences in the cost of living.² This is equivalent to an annual income gain of about \$9200. For workers from Guatemala, wages are 2.9 times higher in the United States; Panama, 3.4 times; and Nicaragua, 3.5 times. Gordon Hanson estimates that in 2000 the average hourly wage for a male with nine years of education was \$2.40 in Mexico, compared with \$8.70 for recent Mexican immigrants in the United States (adjusting for differences in the cost of living).³ Working 35 hours a week, this would amount to an annual income gain of more than \$11,000.

Wage gains are, of course, not the only motivation behind unauthorized immigration. Desire to live with family members or to provide their children with a better education or a safer community also motivate unauthorized immigrants to come here. In addition, experience and skills gained while working in the United States can lead to higher earnings if immigrants return home. Among Mexicans who return after migrating to the United States, the labor market experience they acquired in the United States is worth twice as much as the experience they would have acquired in Mexico had they not migrated.⁴

It is worth noting that historically many unauthorized immigrants did not settle permanently in the United States. Instead, they worked here temporarily, saved some money and returned home; many repeated this on a seasonal basis for years but ultimately retired at home, where their family members had remained. Since the 1980s, however, there has been a gradual shift toward unauthorized immigrants settling in the United States and reuniting with family members here. One reason for this was the 1986 Immigration Reform and Control Act (IRCA) legalization program, which enabled some 2.7 million unauthorized immigrants to receive permanent legal status.⁵ Another reason is the increased difficulty in crossing the U.S.-Mexico border due to tighter border security. As it has become harder to re-enter the United States, unauthorized immigrants have increased their length of stay here.⁶

Unauthorized immigrants in the labor market

Despite the large number of unauthorized immigrant workers in the United States, their economic impact is quite small. Conventional economic models suggest that having unauthorized immigrant workers account for about 5 percent of the workforce adds about 0.03

the Earnings of Legal and Illegal Mexican Immigrants in the United States,” *Journal of Population Economics* 12: 91-116; Kossoudji, S. A., and Cobb-Clark, D. A. (2002), “Coming out of the Shadows: Learning about Legal Status and Wages from the Legalized Population,” *Journal of Labor Economics* 20: 598-628.

² Clemens, M., Montenegro, C., and Pritchett, L. (2009), “The Place Premium: Wage Differences for Identical Workers across the US Border,” Harvard University, John F. Kennedy School Faculty Research Working Paper Series RWP09-004.

³ Hanson, G.H. (2006), “Illegal Migration from Mexico to the United States,” *Journal of Economic Literature* 44: 869-924.

⁴ Reinhold, S., and Thom, K. (2013), “Migration Experience and Earnings in the Mexican Labor Market,” *Journal of Human Resources* 48: 768-820.

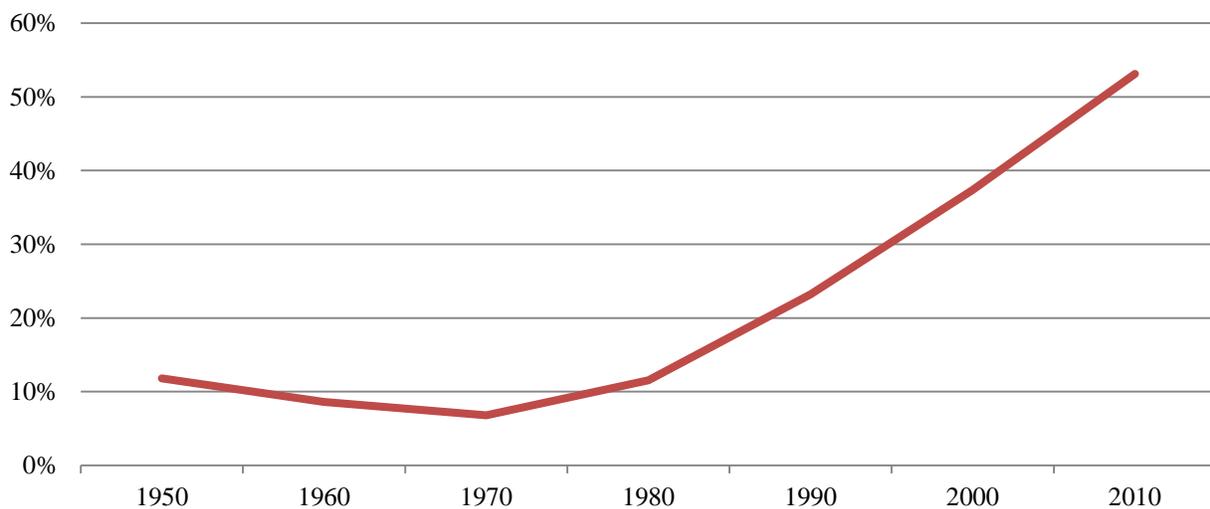
⁵ Reyes, B.I. (2001), “Immigrant Trip Duration: The Case of Immigrants from Western Mexico,” *International Migration Review* 35: 1185-1204.

⁶ Angelucci, M. (2012), “U.S. Border Enforcement and the Net Inflow of Mexican Illegal Migration,” *Economic Development and Cultural Change* 60: 311-357; Reyes, B.I. (2004), “Changes in Trip Duration for Mexican Immigrants to the United States.” *Population Research and Policy Review* 23: 235-257.

percent to U.S. gross domestic product (GDP) annually.⁷ This estimate does not include the income of the unauthorized immigrants themselves. The aggregate effect is so small because the U.S. economy is so huge, and also because most of the gains accrue to unauthorized immigrants.

Despite the small aggregate effect of unauthorized immigrant workers, they are an important source of low-skilled labor in the U.S. economy. Immigrants account for about one-half of workers in the United States who have not completed high school. This share has increased markedly from 1950 to 2010 (see figure 1). The majority of these less-educated immigrants probably is unauthorized or had unauthorized status at some point.

Figure 1. The Share of Low-Skilled Workers Comprised of Immigrants Has Risen over Time



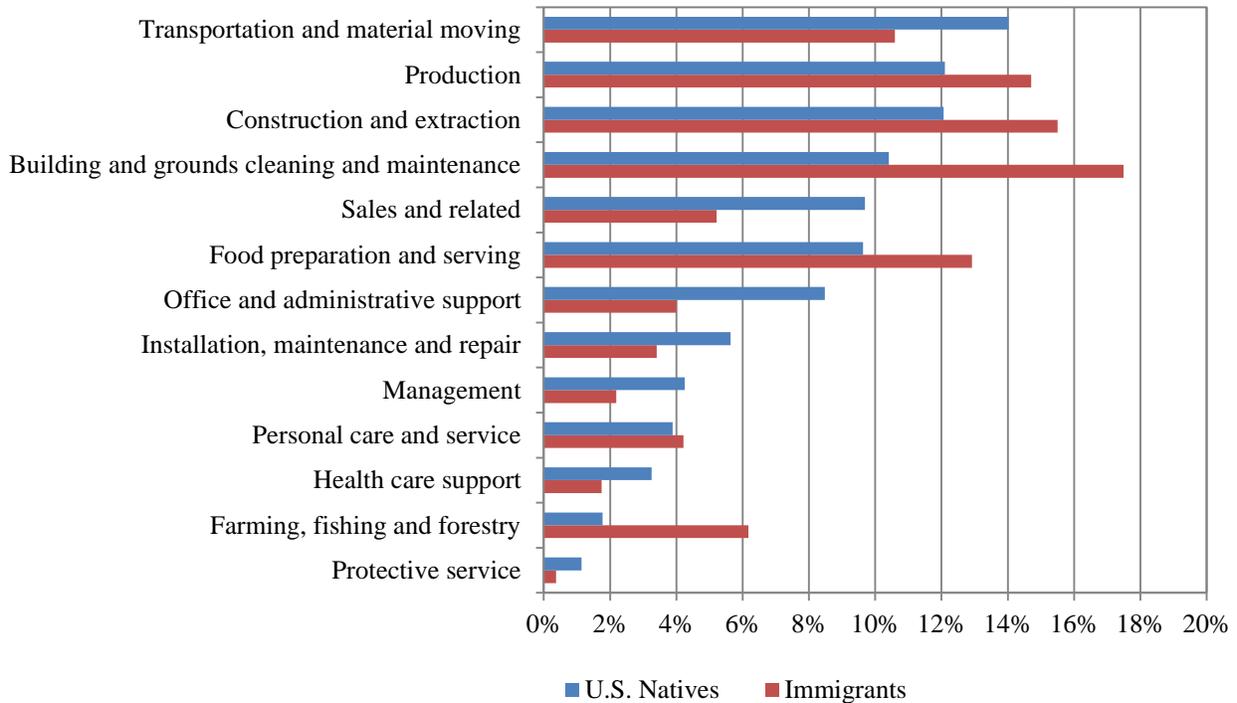
Source: Calculations based on 1950-2000 Censuses and 2010 American Community Survey data from Ruggles, S., et al. (2010), Integrated Public Use Microdata Series: Version 5.0 [Machine-readable database], <https://usa.ipums.org/usa/>. The samples include employed individuals aged 20-64 who have not finished high school or equivalent.

Unauthorized immigrants are concentrated in the agricultural, construction and manufacturing sectors, although they are also overrepresented in service sectors such as leisure and hospitality services (e.g., restaurants and hotels). As figure 2 shows, the shares of low-skilled immigrants (combining unauthorized and legal immigrants) who work in cleaning, cooking and farming-related occupations are much higher than the corresponding shares of low-skilled U.S. natives. In addition, low-skilled immigrants hold jobs that are more physically arduous than low-skilled U.S. natives do.⁸

⁷ Hanson, G.H. (2009), “The Economics and Policy of Illegal Immigration in the United States,” Migration Policy Institute, <http://www.migrationpolicy.org/pubs/Hanson-Dec09.pdf>.

⁸ Zavodny, M., and Jacoby, T. (2013), “Filling the Gap: Less-Skilled Immigration in a Changing Economy,” American Enterprise Institute and ImmigrationWorks, http://www.aei.org/wp-content/uploads/2013/06/-zavodny-filling-the-gap-immigration-report_140631709214.pdf.

Figure 2. Low-Skilled U.S. Natives and Immigrants Work in Different Occupations



Source: Calculations based on 2011 American Community Survey using data from Ruggles et al. (2010). The sample includes civilian workers aged 20-64.

Unauthorized immigrants compete for jobs primarily with each other and with low-skilled legal immigrants, and to a smaller extent with low-skilled U.S. natives. Labor market competition between unauthorized immigrants and low-skilled U.S. natives—primarily those who have not finished high school—is limited by differences in the two groups’ skill sets, sectors and geographic locations. For example, low-skilled immigrants are much more likely to live in California and Texas than low-skilled U.S. natives, who are in turn more likely to live in the South and Midwest. Importantly, differences in English ability distinguish U.S. natives from low-skilled immigrant workers. Research suggests that low-skilled U.S. natives have responded to immigrant inflows by moving into communications-intensive jobs.⁹ In addition, U.S. natives benefit from having a driver’s license, unlike many unauthorized immigrants.

Several studies indicate that unauthorized immigration has little effect on U.S. natives’ earnings. Increased border enforcement along the U.S.-Mexico border has little effect on wages in U.S. border cities, suggesting that undocumented immigration has a minimal impact on wages in

⁹ Peri, G., and Sparber, C. (2009): “Task Specialization, Immigration, and Wages,” *American Economic Journal: Applied Economics* 1: 135-69.

those areas.¹⁰ The inflow of unauthorized Mexican immigrants during the 1990s did not significantly reduce wages among young adult men in California in 2000.¹¹ Evidence from Georgia indicates that legal workers—natives and immigrants combined—earn only 0.15 percent less if they work for a firm that hires workers who appear to be undocumented immigrants than those who work for a firm that does not.¹² Further there is no evidence that legal workers are displaced when Georgia employers hire workers who appear to be undocumented immigrants.¹³ A national study concludes that recent Latino immigrants, many of whom are undocumented, do not hurt earlier Latino immigrants' labor market outcomes in the United States.¹⁴ More broadly, most research on the effects of immigration on U.S. natives' employment and earnings finds a small negative or zero effect, although a few studies do find evidence of sizable negative impacts on competing natives.¹⁵

Meanwhile, low-skilled immigration creates jobs higher up the skill ladder and leads to lower prices for goods and services. For example, having more construction laborers means lower construction costs, greater demand for single-family homes and more jobs for electricians, construction supervisors, real estate agents and the like. Unauthorized immigration particularly benefits highly skilled U.S. natives. Research shows that low-skilled immigration to the United States, much of it unauthorized, increases average hours of paid work and decreases hours of household production among highly educated U.S.-born women.¹⁶ The ready availability of immigrants as housekeepers, gardeners and child care providers increases highly-educated

¹⁰ Hanson, G.H., Robertson, R., and Spilimbergo, A., (2002), "Does Border Enforcement Protect U.S. Workers from Illegal Immigration?" *Review of Economics and Statistics* 84: 73–92.

¹¹ Marcelli, E.A. (2008), "Unauthorized Mexican Immigration and Youth Labor Market Outcomes in California in the 1990s," in: DeFreitas, G. (ed.), *Young Workers in the Global Economy: Job Challenges in North America, Europe and Japan* (Edward Elgar, Cheltenham, UK).

¹² Hotchkiss, J.L., Quispe-Agnoli, M., and Rios-Avila, F. (2012), "The Wage Impact of Undocumented Workers," Federal Reserve Bank of Atlanta Working Paper No. 2012–4.

¹³ Hotchkiss, J.L., and Quispe-Agnoli, M. (2013), "The Expected Impact of State Immigration Legislation on Labor Market Outcomes," *Journal of Policy Analysis and Management* 32: 34–59.

¹⁴ Kugler, A., and Yuksel, M. (2011), "Do Recent Latino Immigrants Compete for Jobs with Native Hispanics and Earlier Latino immigrants?" in: Leal, D.L., and Trejo, S.J. (eds.), *Latinos and the Economy: Integration and Impact in Schools, Labor Markets, and Beyond* (Springer, New York).

¹⁵ Studies that find little evidence of significant adverse effects of immigration on natives' labor market outcomes include Card, D. (2001), "Immigrant Inflows, Native Outflows, and the Local Labor Market Impacts of Higher Immigration," *Journal of Labor Economics* 19: 22–64; Card, D. (2005), "Is the New Immigration Really So Bad?" *Economic Journal* 115: F300–F323; Ottaviano, G.I.P., and Peri, G. (2012), "Rethinking the Effect of Immigration on Wages," *Journal of the European Economic Association* 10: 152–197; Orrenius, P.M., and Zavodny, M. (2007), "Does Immigration Affect Wages? A Look at Occupation-Level Evidence," *Labour Economics* 14: 757–773; Shierholz, H. (2010), "Immigration and Wages: Methodological Advancements Confirm Modest Gains for Native Workers," Economic Policy Institute, <http://www.epi.org/publication/bp255/>. Studies that find negative effects of immigration on natives' labor market outcomes include Borjas, G.J. (2003). "The Labor Demand Curve Is Downward Sloping: Reexamining the Impact of Immigration on the Labor Market," *Quarterly Journal of Economics* 118: 1335–1374; Borjas, G.J., Freeman, R.B., and Katz, L.F. (1997), "How Much Do Immigration and Trade Affect Labor Market Outcomes?" *Brookings Papers on Economic Activity* 1: 1–90; Borjas, G.J., Grogger, J., and Hanson, G.H. (2010), "Immigration and the Economic Status of African-American Men," *Economica* 77: 255–282.

¹⁶ Cortes, P., and Tessada, J. (2011), "Low-skilled Immigration and the Labor Supply of Highly Skilled Women," *American Economic Journal: Applied Economics* 3: 88–123.

women's labor supply in the marketplace while decreasing it in the home. It also enables highly skilled U.S.-born women to more easily combine having a career and a family.¹⁷

Estimates suggest that around one-half of unauthorized immigrant workers are in the formal sector, or working on the books. The Congressional Budget Office estimates that about one-half of unauthorized immigrant workers have payroll taxes deducted from their paychecks.¹⁸ A slightly smaller share of unauthorized immigrants pays federal income taxes. Unauthorized immigrants who work in the informal sector do so in one of several ways: 1) They may work off the books for an employer that also hires other workers on the books. An example is a restaurant that pays some workers on the books but others off the books. 2) They may work for a small employer that only hires workers off the books. An example is a household that hires a nanny, a housekeeper or a gardener and does not withhold any payroll or income taxes for that worker but is legally required to do so.¹⁹ 3) They may work for themselves. Examples include a day laborer who waits in front of a home improvement store every day for work, and someone who fixes cars for cash.

Research suggests that E-Verify requirements drive immigrants into informal employment. After Arizona became the first state in 2007 to require employers to use E-Verify to establish that newly hired workers are legally authorized to work in the United States, self-employment among noncitizen Hispanic male immigrants with at most a high school diploma doubled there compared with other states.²⁰ At the same time, wage-and-salary employment (formal sector employment) declined substantially. As these requirements have become more common across the country, informal sector employment probably has risen among unauthorized immigrants.

Future guest worker programs

The United States actually has the largest guest worker program in the world—but it is not a formal program that involves temporary legal status. We have the largest number of unauthorized immigrants of any country in the world. For decades, we have chosen to tolerate a large and growing population of unauthorized immigrants rather than adopt the substantial reforms needed to reduce unauthorized immigration. These reforms include well-designed guest worker programs and more interior enforcement.

Reducing unauthorized immigration requires recognizing that employer demand for foreign workers is strong, particularly during times of robust economic growth, and that the supply of potential immigrants is enormous. Given these realities, the United States should try to channel

¹⁷ Furtado, D., and Hock, H. (2010), "Low Skilled Immigration and Work-Fertility Tradeoffs Among High Skilled US Natives," *American Economic Reviews Papers & Proceedings* 100: 224-228.

¹⁸ Congressional Budget Office (2007), "The Impact of Unauthorized Immigrants on the Budgets of State and Local Governments," <http://www.cbo.gov/sites/default/files/12-6-immigration.pdf>. See also Goss, S., et al (2013), "Effects of Unauthorized Immigration on the Actuarial Status of the Social Security Trust Funds," *Social Security Administration Actuarial Note No. 151*, http://www.socialsecurity.gov/oact/NOTES/pdf_notes/note151.pdf; Council of Economic Advisers (2005), *Economic Report of the President*, http://www.gpoaccess.gov/eop/2005/2005_erp.pdf.

¹⁹ Employers are required to make Social Security payments and withhold taxes for workers who earned more than \$1900 in 2015.

²⁰ Bohn, S., and Lofstrom, M. (2013), "Employment Effects of State Legislation," in: Card, D., and Raphael, S. (eds.), *Immigration, Poverty and Socioeconomic Inequality* (New York: Russell Sage Foundation).

immigration into legal streams. A well-designed guest worker program would respond to the business cycle, allowing a larger number of workers to enter when the economy is growing faster. The number of guest workers admitted could be based on measures of labor market tightness, such as the unemployment rate and employment growth, and indicators of overall economic activity, such as GDP growth.

A well-designed program would allow employers to hire workers who have the skills they seek. Employers better know their needs than any bureaucrat or computer algorithm. There is little economic reason for a guest worker program to target specific sectors or regions. After all, if U.S. workers are readily available, an employer will have little reason to turn to the guest worker program. Of course, a guest worker program needs to involve enforcement of minimum wage laws, overtime pay requirements and workplace safety and health regulation. Payroll tax treatment and employer-sponsored health insurance requirements for guest workers must also be equivalent to those for domestic workers.

Like the current H-2A and H-2B programs, a guest worker program should encourage circularity by allowing guest workers to come back to work in the United States in the future if they return home when their contract is up. Another good way the current H-2A and H-2B programs encourage circularity is by not allowing temporary foreign workers to bring their family members.

Unlike the current H-2A and H-2B programs, a well-designed program would allow visa portability, or for guest workers to easily move across employers. If an employer offers a higher wage or better working conditions, a guest worker should be able to move between jobs. Allowing market forces to work is one of the best ways to protect U.S. workers from unfair competition from guest workers. Portability combined with enforcement of current laws would help ensure that employers are not able to exploit guest workers. Market forces are a better gauge of labor supply and demand than attempts to measure prevailing wages for specific sectors and regions, which is difficult to do and can give quickly outdated estimates. Setting a maximum number of guest workers that varies with the business cycle and allowing those workers to easily move across employers would better protect U.S. workers from unfair competition than current policy does.

As we have witnessed, many employers will hire unauthorized immigrant workers instead of utilizing guest worker programs if it is cheaper and easier to do so. Unauthorized immigrant workers are essentially a spot market—they're usually available when and where vacancies arise. The H-2A and H-2B programs, in contrast, require months of costly paperwork before employers can hire workers. It is no wonder that so many employers have preferred to hire unauthorized immigrant workers—the somewhat amazing fact is actually that some employers have used the H-2A and H-2B programs and that the H-2B program runs out of visas every year. A well-designed guest worker program needs to try to mimic a spot market as much as possible. Portability can help achieve this, as can increasing the number of guest workers when labor markets tighten.

More interior enforcement, particularly at workplaces, is vital to the success of a guest worker program. Requiring all employers to use E-Verify would help choke off the jobs magnet that

attracts most unauthorized immigrants. Research on states that have adopted universal E-Verify requirements finds that these requirements have substantially reduced the population of likely unauthorized immigrants in those states. Labor outcomes worsen for likely unauthorized immigrants while improving for less-educated U.S. natives.²¹ A combination of universal E-Verify and a well-designed guest worker program seems the best way to reduce unauthorized immigration while fostering economic growth.

Finally, it is important to recognize that it is not feasible to have no unauthorized immigration at all. The costs of doing so would far outweigh the benefits. U.S. borders can be made secure up to a point, but it is not possible to prevent all unauthorized entries and certainly not all visa overstays. Instead, the United States should focus on reducing the incentives for unauthorized immigration through a combination of a well-designed guest worker program and more workplace interior enforcement.

²¹ See, for example, Bohn, S., and Lofstrom, M. (2013), "Employment Effects of State Legislation," in: Card, D., and Raphael, S. (eds.), *Immigration, Poverty and Socioeconomic Inequality* (New York: Russell Sage Foundation); Orrenius, P.M., and Zavodny, M. (2015), "The Impact of E-Verify Mandates on Labor Market Outcomes," *Southern Economic Journal* (forthcoming); Amuedo-Dorantes, C., and Bansak, C. (2014), "Employment Verification Mandates and the Labor Market Outcomes of Likely Unauthorized and Native Workers," *Contemporary Economic Policy* 32: 671-680.