The Economics of Immigration

A WHITE PAPER

Introducing some of the economic issues regarding;

ILLEGAL IMMIGRATION IN THE UNITED STATES

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So just what are the economics of immigration? Are the issues surrounding immigration economic, political, social, all of the above or none of the above? In truth, the issues that we deal with are all of the above. There is no “one” answer to the issues surrounding immigration because those that are political and social are influenced by our own personal values and experience. What appears to be the “correct” answer to one person, will not be to another because of the different value and belief systems the individuals hold. Thus, this brief presentation is not going to try to present answers to the political & social issues. What it can do is present some of the economics surrounding the issue of immigration.

The two questions that most often come up regarding today's issues of immigration are:

- Do immigrants (that are here illegally) take jobs from Americans?
- Do immigrants (that are here illegally) consume public services that are ultimately paid for by tax dollars paid by US citizens?

A third question that we may wish to examine the economics of is:

- Will there be a decline in (illegal) immigration in the near future?

**Do immigrants (that are here illegally) take jobs from Americans?**

Before examining the economics of the question, let us first acknowledge that regardless of the economic outcome of our analysis, there is surely at least one American that does not have a job because an illegal immigrant occupies that job. Finding this exception, however, does not necessarily mean that as a general rule Americans are losing jobs to illegal immigrants. By the same token, this does not mean that our economic analysis won't conclude that illegal immigrants are taking jobs from Americans.

Fundamentally we can draw some conclusions to the answer by examining the relative demand for labor vs the relative supply of labor. In other words, an examination of the unemployment rate can shed some light on the argument. We could conclude for example that if there are Americans unemployed, and there are illegal immigrants that are working, that the answer to our first question is yes.
In conducting this analysis however, we need to examine the makeup of our unemployment figures and the nature of unemployment itself. These factors include:

- Do unemployment figures include illegal immigrants looking for work?
- The concept of full employment.

If unemployment figures include illegal immigrants looking for work (which they do), then the assertion that Americans have jobs taken from them isn’t nearly as strong. For instance, examine the following figures:

<table>
<thead>
<tr>
<th>Description</th>
<th>Figures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total U.S. Population</td>
<td>300 million</td>
</tr>
<tr>
<td>Total U.S. Civilian Labor Force</td>
<td>153.2 million</td>
</tr>
<tr>
<td>Total U.S. Unemployed</td>
<td>7.2 million</td>
</tr>
<tr>
<td>Total U.S. Employed</td>
<td>146.0 million</td>
</tr>
<tr>
<td>Total % persons lost jobs</td>
<td>2.4 %</td>
</tr>
<tr>
<td>Total % persons left jobs</td>
<td>.5 %</td>
</tr>
<tr>
<td>Total % persons reentering labor force</td>
<td>1.4 %</td>
</tr>
<tr>
<td>Total % persons entering labor force</td>
<td>.5%</td>
</tr>
<tr>
<td>Total U.S. Unemployment Rate</td>
<td>4.7% *</td>
</tr>
</tbody>
</table>

* Rounding of individual percentages do not precisely add to the overall 4.7% rate

Estimated Illegal Immigrant Population: 7–20 million

With some additional calculations:

- Assume, 20 million illegal, 300 million total population, then 6.7% of the population is illegal.
- Apply 6.7% to the civilian labor force of 153.2 million yields an estimated illegal workforce of 10.3 million.
- Deduct 10.3 million from the total labor force of 153.2 million yields an estimated 142.9 million Americans that can be potentially employed.
- If the total number of people employed in the U.S. is 146.0 million and the total number of Americans that can potentially be employed is 142.9 million, this means that today there are a minimum 3.1 million jobs that are filled today that can be filled no other way than to employ illegal immigrants.

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1 U.S. Census Bureau, 2006  
2 All Unemployment figures from the U.S. Department of Labor, 2007  
3 Various sources – represents the range of estimates
The Economics of Immigration

It could be further argued that in considering the 4.7% unemployment rate, that the roughly 60% of individuals that lose their jobs, or voluntarily quit their jobs in any one month (2.4% and .5% of the 4.7%) could not have lost their jobs because of illegal immigrants. However a case could certainly be made that some of the re-entrants, or some of those entering for the first time (such as high school drop-outs) could in fact be loosing out to illegal job holders. Based on a total unemployed of 7.2 million, 40% or 2.9 million could therefore potentially be affected.

So how does one reconcile the two figures; 3.1 million jobs filled in excess of what available American job holders could possibly fill, with the 2.9 million unemployed that could potentially be unemployed as a result of illegal immigration? The concept of full employment can shed some light on which of these two figures on net, may be predominantly true.

The concept of full employment recognizes that from a practical standpoint, that the economy is employing as much labor as is absolutely possible - not when the unemployment rate is 0%, but at some figure greater than 0%. Most economists in the last 10 years or so place this “Full Employment” figure someplace in the 3 – 5% range.

To understand this, there are primarily four reasons people are unemployed. They are:

- **Seasonal Unemployment** – This is unemployment caused because certain jobs only exist during certain parts of the year. For example, not many ski instructor positions exist during the summer.
- **Frictional Unemployment** – This is unemployment caused because it takes some time just to transition from one job to the next.
- **Structural Unemployment** – This is unemployment caused because the job seeker lacks the skills needed in the economy to obtain a job.
- **Cyclical Unemployment** – This is unemployment caused because the economy doesn’t produce enough jobs to satisfy the supply of labor.

The first three reasons for unemployment always exist, no matter the condition of the economy. Thus, “Full Employment” is equal to the sum of the Seasonal, Frictional & Structural unemployment rates. Another way to put this is when Cyclical unemployment is equal to zero, then the economy is operating at full employment. This also means that unemployment caused by Seasonal, Frictional & Structural unemployment factors will exist whether or not there is an illegal supply of labor.
competing for jobs. It is only the last type of unemployment, cyclical that can be examined to test the hypothesis of whether or not Americans are losing jobs to illegal immigrants. Should there be Americans in this category, and illegal immigrants are holding jobs, it is possible that the presence of illegal immigration costs Americans jobs.

Using this logic, if the unemployment rate in the economy is at or below the “Full Employment” rate, it would be difficult to argue that illegal immigration is taking jobs from Americans. As of October 2007 the national unemployment rate was 4.7%. The unemployment rate in Kansas, 3.8% and the unemployment rate in Garden City, 3.8%. Again, the accepted “Full Employment” rate ranges from 3 – 5%. Thus there is currently strong evidence that the national and local economies are operating at full employment. If everyone is employed, it is difficult to argue that on the whole, Americans are losing jobs to illegal immigrants.

An additional complicating factor to whether or not Americans are losing jobs to illegal immigrants however, admittedly requires the application of a value judgment to the following question;

- At what wage are individuals willing to work?

Answering this question requires the application of a value judgment to the following reason. What if an American chooses to turn down a job because “it doesn’t pay enough.” and an illegal immigrant subsequently takes the job. In this situation, did an illegal immigrant really “take an American’s job”, or is this more of the case of “I’m too good for this job.” The answer to this question changes on a case by case basis, or based on your value system regarding a persons’ individual responsibility to accept jobs that are available.

The more the value judgment falls towards an individual’s responsibility to take any job (vs. remaining unemployed), the less valid is the claim that illegal immigration takes American jobs because it can be argued that those who refuse to take the job, would be unemployed anyway. On the other hand, when the value judgment falls toward an individual’s responsibility only being to only accept jobs that pay a wage sufficient to support a family, the more valid is the claim that illegal immigration takes American jobs because it can be argued that the tendency for a flow of an illegal workforce suppresses wages⁴ results in the American finding it harder to locate work with which they can support their family.

⁴ See page 11 of this document for a discussion of wage rate suppression.
Do immigrants (that are here illegally) consume public services that are ultimately paid for by tax dollars paid by U.S. citizens?

The answer to this question on the one hand is simple; Yes. However, if the question is asked as follows: do immigrants that are here illegally consume public services without paying for them at all? ...then the answer becomes No. Treating this question as a simple YES or NO statement is truly misleading and doesn't do justice to the complexity of the issue.

Whether immigrants (legal or not) “pay their way” is complex because of two reasons

- Comparing the “net” cost to society of immigrants without placing it into context with other groups in our society (who are citizens) which have similar economic backgrounds somewhat ignores the question of whether their legal status actually changes what the “net” cost is.
- Comparing the cost of services consumed to the revenues collected ignores other economic contributions they make to society.

Of course, consideration of the reasons above requires an understanding of the following:

- What is the cost of illegal immigrants utilizing public services?
- Do illegal immigrants pay for public services consumed?
- How does this “net” question compare to the economic contributions illegal immigrants produce by generating incomes that might not otherwise exist?

Let us explore these three questions...
DO ILLEGAL IMMIGRANTS PAY FOR PUBLIC SERVICES?

The IRS has estimated that about 6 million illegal immigrants file individual income tax returns each year. Other research has indicated that between 50 and 75% of all illegal immigrants pay federal, state and local taxes. Colorado estimated that in 2005, the state spent between 217 and 225 million dollars on education, Medicaid, and corrections related to illegal immigrants, but they also estimated that illegal immigrants paid in an estimated 159 to 194 million dollars in taxes. There are also a small minority of studies that indicate that in some limited cases, illegal immigrants pay more in taxes, than in services they consume. Illegal immigrants also pay sales taxes in the same proportion as any other citizen in the same economic strata. Though assuredly quite small, any illegal immigrant that owns property is paying property taxes. Further illegal immigrants that are renting, indirectly pay property taxes in the very same manner that citizens do when they rent.

WHAT IS THE COST OF PUBLIC SERVICES CONSUMED BY ILLEGAL IMMIGRANTS?

Services utilized or most affected by legal or illegal immigrants include: medical care, education and law enforcement. While a number of studies have been conducted, all are generally limited to a specific city, geographic region or state. Further, these studies examined some of the costs created by, but often don’t consider any revenues paid by illegal immigrants. There is the further question of how to categorize spending on the children born in the U.S. (and therefore U.S. citizens) of illegal immigrants. Many studies include these costs in the illegal category. Should they, or should they not?

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5 The Congressional Budget Office report, The Impact of Unauthorized Immigrants on the Budgets of State and Local Governments, December 2007, uses the word “unauthorized” when referring to immigrants that are not here as U.S. Citizens, or under valid visa. References in this paper have changed this word to “illegal” for consistency throughout the document.

6 Page 6, the Congressional Budget Office report, The Impact of Unauthorized Immigrants on the Budgets of State and Local Governments, December 2007.

7 Page 9, the Congressional Budget Office report, The Impact of Unauthorized Immigrants on the Budgets of State and Local Governments, December 2007.
Medical care is one area clearly impacted by immigration. Unauthorized or illegal immigrants are less likely to have health insurance (so too, most low income citizens). This means that a smaller percentage of this population seeks out medical care than the population as a whole. The impact of this behavior means that when an immigrant does get sick, or has an accident, emergency medical services are often called upon. The Federal government requires health care facilities to provide a certain level of service to residents, regardless of their ability to pay, or their immigration status. Generally this means emergency medical care and in some states pregnancy care. The Consolidated Omnibus Budget Reconciliation Act of 1986, often referred to as “emergency Medicaid”, provides coverage to illegal immigrants if they are under 19, over 65, disabled, or a caregiver of a child under 18. Only medical care necessary to stabilize a patient is provided under this act. Additional medical benefits that an illegal immigrant may qualify for also vary from state to state. California, for instance, also covers pre-natal care. The question or concern about these costs generally center around the absolute dollars spent. On the one hand, these expenditures, though large, generally represent but a small percentage of total spending in health care by states.

The problem is not evenly distributed across the nation or states either. In areas with a higher concentration of illegal residents, expenditures represent a higher portion of total costs and become a burden for the locality. For instance, Oklahoma spent 3.1 billion dollars on health care services for residents. Less than 1% of individuals utilizing these services were illegal, and they represented less than 1% of total costs, still about 31 million dollars. The situation is perhaps worst along the U.S./Mexican Border. A report commissioned by the US/Mexico Border Counties Coalition, in 2000, county governments sharing a border with Mexico incurred almost 190 million dollars in uncompensated care to illegal immigrants, about 25% of all uncompensated care these jurisdictions provided. This also means that legal residents and U.S. citizens consumed 75% of this uncompensated care or roughly 570 million dollars. Uncompensated care would include services rendered by the locality that do not qualify for federal reimbursement or are not paid for by the individual.

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9 page 8, the Congressional Budget Office report, The Impact of Unauthorized Immigrants on the Budgets of State and Local Governments, December 2007.
A second area affected by the presence of illegal immigrants is education. The cost of K-12 education is the primary responsibility of state and local governments. Further, the Supreme Court ruled in 1982 that states may not exclude children from public education because of their immigration status. Current estimates\(^\text{10}\) place the total school age population at 53.3 million students. Of this, 2 million children are estimated to be illegal immigrants, about 4% of the total school age population. An additional 3 million children are estimated to be U.S. Citizens, born to illegal immigrants. Two examples of the cost to educate illegal immigrants include\(^\text{11}\):

- In Minnesota, total spending in 2003/4 for elementary & secondary education was 8 billion dollars. An estimated 9,400 - 14,000 illegal immigrant children were enrolled costing between 79 and 118 million dollars, about 1 ½% of the total budget. Total Minnesota enrollment figures were unavailable.
- In New Mexico, the budget for education is 3 billion dollars. An estimated 9,200 illegal immigrants were enrolled costing 67 million dollars, about 2.2% of the total.

In both of the examples cited above, what percentage of the total school population is made up of illegal immigrants? In addition, the reports do not address any revenues from property taxes or other sources that may be paid by illegal immigrants. Do these sources of revenues cover this cost or not? None of these reports addressed the marginal costs imposed upon school districts that must implement multilingual or other programs necessary to address the unique needs of a legal immigrant population. Since schools must implement these programs anyway to accommodate legal immigrants, how much of this cost is already sunk - how much of these costs then, are truly solely a result of illegal immigrants?

\(^{10}\) page 7, the Congressional Budget Office report, The Impact of Unauthorized Immigrants on the Budgets of State and Local Governments, December 2007.

\(^{11}\) page 8, the Congressional Budget Office report, The Impact of Unauthorized Immigrants on the Budgets of State and Local Governments, December 2007.
A third area affected by the presence of illegal immigrants is the impact on law enforcement which also imposes costs upon state and local jurisdictions. A disproportionate economic impact rests in regions with the highest concentrations of law enforcement activities involving illegal immigrants. This is in part because illegal immigrants involved in other illegal activities are processed through our justice system until the completion of their sentences (when convicted) before they are transferred to the custody of the federal government for deportation. Though probably not representative of the situation nation-wide, the US/Mexico Border Counties Coalition reported that border counties spent 108 million dollars in 1999. San Diego County alone incurred almost half of this expense at 50 million dollars. For San Diego County, this represented 9% of their total law enforcement spending.

The total overall economic impact may actually be overstated because of the following considerations.

- Illegal immigrants that are victims of crimes generally do not enlist the support of law enforcement for fear of jeopardizing their own status.
- A Rutgers University study indicated that generally speaking, illegal immigrants tend to be incarcerated at lower rates than native born citizens\(^\text{12}\).

The estimates of law enforcement costs also do not include partial reimbursements that state and local governments can receive as part of the Immigration Reform and Control Act of 1986. Between 2000 and 2006, the Department of Justice provided nearly $2.8 billion in reimbursements under this act. (Though this still begs the question whether illegal immigrants ultimately paid taxes to cover these payments.)

\(^{12}\) page 9, the Congressional Budget Office report, The Impact of Unauthorized Immigrants on the Budgets of State and Local Governments, December 2007.
DO OR DO NOT ILLEGAL IMMIGRANTS PROVIDE FOR ECONOMIC BENEFITS TO OUR NATION WHEN COMPARED TO THEIR ECONOMIC COST?

So what of the positive impact illegal immigrants have on our communities and societies? Little if any study has been done in this area. The discussion then, is only capable of representing general economic impacts which can not be quantified at this point. Without the quantification conclusions about the net economic cost or benefit illegal immigrants create can not really be drawn.

First, there is no question that illegal immigrants consume public services. But this holds true for low income Americans (including legal immigrants) as well. Studies point out that because immigrant incomes are relatively low, that they pay a lower portion of their income in taxes, just as other low income groups. Thus, many of the arguments utilized to cite that illegal immigrants are an economic drag on our society can also be applied to U.S. citizens as well. On the other hand, this doesn’t necessarily make it any fairer for U.S. citizens to bear the cost of illegal immigrants. Further, the implications of arguments suggesting that illegal immigrants “do not pay their way” ignore whatever positive economic benefits they provide by holding jobs and being contributing members of their communities...

Second, there is no question that illegal immigrants hold jobs. These jobs obviously provide incomes which are largely spent in the local economy\(^\text{13}\). This supports local businesses which would not otherwise have these sales in the absence of the illegal population. Consider anecdotally, the three biggest budgetary expenses for low income individuals; housing, food, and transportation. Thus, much of the income generated by illegal immigrants directly benefits businesses. Further, if the hypothesis is true that illegal immigrants are not taking U.S. Citizen jobs, this economic impact actually creates economic growth in the U.S.; something that all citizens benefit from to some degree or the other.

\(^{13}\) to the extent that these incomes are injected into they local economy -as opposed to portions of the income sent abroad – {which increases the trade deficit}
Will there be a decline in (illegal) immigration in the near future?

Through U.S. history, there have been major immigrations from Great Britain, Ireland, Scandinavia, Germany, Hungary, Poland, Russia, Serbia, Greece, Italy, Vietnam, the African and South American continents, and Hispanic regions. All of these immigrations can to some extent be tied to economic reasons. These economic reasons for immigration can not be separated into legal/illegal reasons. The current political debate is focused on the Hispanic immigrations that have been taking place now for almost 40 years. These immigrants have sought out the U.S. because opportunities are better here, than in their native countries, and incomes and standards of living are higher. Thus, regardless of political responses to the situation, the underlying economic reasons for immigration have not been altered.

From an economic perspective, even a simplistic approach to the situation may be used to understand the situation. Given the following situation:

- Incomes in the United States are higher than incomes in Mexico.
- Those in the labor force are mobile.
- The opportunity cost of a worker choosing to work in Mexico is not working in the U.S.

Some workers in Mexico who are mobile will choose to reduce the supply of labor (fewer sellers) in the Mexican labor market (because of the opportunity cost) and relocate to the U.S. where they increase the supply of labor (additional sellers) in the U.S. labor market.
The observation that those lower income labor markets most affected by the influx of immigrants into the U.S. labor market, that wage rates are suppressed, is supported by the basic supply and demand model. A similar analysis can be utilized if the demand for labor is mobile, producing a decrease in demand for labor in the U.S. and an increase in demand for labor in Mexico.

Therefore, so long as people are mobile, and desire better incomes and standards of living (the U.S. has higher incomes and standards of living than most anyone in the world), the motivation for people to immigrate to the U.S. will continue. In many respects, this is no different than the southern migrations to the north after the Civil War to seek out jobs, or the gold rush migrations because people were willing to take a risk that they could obtain a fortune. Our rural areas within our nation have also experienced an “out-migration”, as people have left and moved to metropolitan areas in search of jobs.
To Conclude...

The economic issues and questions surrounding immigration and (illegal immigration) are ultimately very simple:

- People move where there are jobs.
- Does a person pay for, or not pay for services used?

...But their application is incredibly complex.

- Broad generalizations are dangerous, because not all regions of the country are affected in the same manner.
- Studies done to date are piece-meal and other data is somewhat anecdotal. Thus there is no reliable way to piece together the big, overall picture of the economic impact immigration has.
- Studies done to date typically have focused on either cost, or on revenues, but rarely have they looked at both to measure the true net impact of immigration, much less illegal immigration.
- Empirically, separating data from illegal vs. legal immigrants is exceedingly difficult, and assumptions made about what data should be allocated to what group, if incorrect, lead to misstating the true impact of the issue.
- There are the inseparable social questions surrounding how to quantify the impact of illegal immigration when children of illegal immigrants are U.S. Citizens. For instance, do you count this as spending for illegal immigration or for U.S. Citizens?

This review just scratches the surface of the economic debate. So explore the sources cited here and others you may find. Ultimately there may be no “one” answer to the issues surrounding immigration because those that are political and social are influenced by our own personal values and experience.¹⁴

¹⁴ Photo courtesy of U.S. Library of Congress.