



Blog Post

Illegal Immigration: Considering the Benefits and Costs

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Last week, Steve Camarota of the Center for Immigration Studies commented on a passage in my recent book for AEI, *Regulating Low Skilled Immigration in the United States*. I want to begin by thanking Steve for bringing attention to the manuscript. In the immortal (and much paraphrased) words of P.T. Barnum, all publicity is good publicity.

I'd also like to address three points raised in Steve's comments, which address the costs and benefits of illegal immigration in the United States. The first regards the immigration surplus, a concept familiar to economists but probably opaque to everyone else. When economists consider immigration in the United States, whether legal or illegal, they see two types of effects. One is on the distribution of national income. The arrival of immigrants helps some U.S. residents (employers who hire immigrants, consumers who buy the goods and services they produce) and hurts others (workers who compete with immigrants for jobs, taxpayers who have to cover any net fiscal expense created by immigration). A second effect is on the level of national income, which is simply the sum of the changes in income for U.S. residents affected by immigration. Suppose immigration raises national income but hurts vulnerable groups, such as low-skilled U.S. labor. Does this mean immigration is bad for the United States? The answer that economics provides (you had to know this was coming) is that it depends. What it depends on is the

government's welfare function, which describes how policy makers weigh outcomes of a policy change for different groups in society. Giving more weight to the welfare of workers makes immigration look worse, whereas giving more weight to employers makes immigration look better. In calculating the immigration surplus, I weigh all members of society equally. There is no good reason for doing so other than choosing an alternative weighting scheme (such as favoring workers) would appear arbitrary. If we take such an "equal weighting" approach (to which one can raise many legitimate objections), figuring out immigration's impact on the U.S. economy is simply a matter of determining its impact on national income.

I take Steve's comments to suggest that I am trying to make the immigration surplus look big by not giving extra weight to the poor workers who are likely hurt by the arrival of low-skilled foreign labor. However, there are other ways in which my calculation underestimates the size of the immigration surplus. I'll mention one, which is particularly important for illegal immigration: I ignore ways in which illegal immigrants improve economic efficiency in the United States. Three notable features of illegal immigration (relative to legal low-skilled immigration or the supply of native low-skilled labor) are that a) its level is *responsive to the U.S. business cycle*, with illegal entry rising when the U.S. economy is booming (e.g., 2001–2007) and contracting when it is not (e.g., 2007–2009), b) illegal workers are *mobile across U.S. geographic regions* in response to changes in local economic activity (a worker may hang drywall in Las Vegas one month, lay carpet in Atlanta the next, and mow lawns in Illinois the following), and c) illegal workers are *highly motivated*, having incurred substantial expenses to get to the United States (smugglers charge fees to cross the border of around \$3,000). None of these features is accounted for in the way in which economists calculate the immigration surplus. Adding them in would raise the benefit side of the ledger for illegal immigration. The point here is that there are reasons to believe that my simple calculation of the immigration surplus economists understates (rather than overstates) the net gains from letting in foreign workers.

The second point I'd like to address in Steve's comments is on the costs of enforcing immigration law. In my analysis, I assume that it would take a doubling of the enforcement budget (currently at around \$16 billion) to reduce illegal immigration to zero. Steve complains that the enforcement budget includes things like customs that are unrelated to illegal immigration. True. However, the point is that eliminating illegal immigration through expanding enforcement, at least under current strategies, is likely to be very expensive, which I use to argue that an enforcement-only approach fails a cost-benefit test. Consider U.S. enforcement efforts since 2005. The Border Patrol has nearly doubled the number of officers in the field from 11,000 to 20,000. What did the enforcement buildup yield? An increase in the price that smugglers charge to illegal immigrants of around 30 percent. Raising smugglers' prices is in part how the Border Patrol deters illegal immigration. The extra cost of crossing the border from the recent border buildup is around \$1,000, an amount that an illegal immigrant could recoup in the United States in about a month (assuming that he earns \$8 an hour there and \$3.20 in Mexico, after adjusting for differences in the cost

of living—recent research by the World Bank suggests that the U.S. cost-of-living-adjusted hourly wage is 2.5 times that in Mexico for the typical young Mexican male migrant). Thus, in the last five years we've doubled the personnel cost of the Border Patrol but only made a small dent in the incentive to migrate to the United States. Under current enforcement strategies, it is not unreasonable to think that we would have to do much more than double enforcement spending to drive illegal immigration to zero, which is why I suggest that an enforcement-only strategy is costly. (Of course, one retort is that we should change current enforcement strategies. Point taken. But if better strategies are available, why hasn't Congress funded them?)

The third and final point I'd like to make regarding Steve's comments has to do with the fiscal costs of illegal immigration. Producing estimates of the fiscal drain caused by undocumented workers has become a cottage industry in Washington. The analysis that Steve performed for the Center on Immigration Studies a few years ago contains some of the more sensible estimates I've seen. Recent estimates, including FAIR's that the fiscal cost of illegals is over \$100 billion a year, are a bit hard to swallow. In truth, we don't know what the fiscal costs are as no survey of the government benefits used by households contains information on individuals' legal status. That said, I would expect that the true fiscal impact of illegal immigration is in fact negative: illegal immigrants almost surely absorb more in government benefits than they pay in taxes. The issue, however, is what this implies for policy. Concluding that the fiscal impact is negative does not lead to the policy choice of eliminating illegal immigration, because, as we've seen, eliminating illegal immigration itself could be a hugely costly undertaking. What other policy options are on the table? If one wants to reduce the fiscal drain from immigration, what matters more than anything else is the earnings potential of immigrants' children. If their kids go on to college, they will likely make positive net fiscal contributions to the U.S. government in the future, offsetting the drain today caused by their families. The DREAM Act, which would reward illegal immigrant youth who finish high school and go on to college (or join the military), is the sort of policy that would reduce the fiscal costs of immigration.

I would conclude it makes sense to work on all fronts. Let's find ways to make enforcement more cost effective (and humane) and to give immigrants an incentive to make positive contributions to U.S. fiscal accounts.

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