What Are the Effects of State Level Legislation Against the Hiring of Undocumented Immigrants?

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In 1986 Congress enacted the Immigration Reform and Control Act (IRCA) with the intention of curtailing the inflow of unauthorized immigrant workers. The framers of IRCA pursued a three-pronged strategy for addressing unauthorized immigration. First, a general amnesty for those undocumented workers meeting certain residence or work requirements wiped the slate clean for the millions of undocumented immigrants already established in the country. Second, the legislation imposed sanctions on employers that hire unauthorized immigrants, attempting to remove the lure of higher-paying employment for would-be immigrants. Third, the legislation provided more funds for border enforcement, making it more difficult to enter the country without proper documentation. By all measures, IRCA failed to achieve its key objectives. Since IRCA's enactment, the undocumented immigrant population has grown from about 3 million to roughly 12 million. Moreover, the verification and employer sanctions provisions of the law have failed to prevent unauthorized immigrants from working in the U.S.

Despite several attempts at immigration reform, Congress has not been able to pass immigration legislation addressing the increase in the unauthorized immigrant worker population. Recently, there has been an unprecedented level of state legislative activity in the immigration policy domain. In 2008, 15 states enacted 22 laws related to the employment of undocumented workers, up from only 5 laws enacted in 2005. In the first half of 2009 alone, 9 states enacted another 12 laws related to the employment of undocumented workers (National Conference of State Legislatures, 2005-2009). Arguably the most restrictive of such state legislation is Arizona's Legal Arizona Workers Act (LAWA). LAWA was passed in July 2007 and implemented in January 2008. To date, there is no research assessing how these state laws are impacting the labor market outcomes of immigrants and the native born.

Our preliminary analysis of data from the Current Population Survey (CPS) indicates that the enactment of LAWA has indeed affected the demographic composition of Arizona. Although Arizona's population growth between 2006 and 2008 is slightly greater than the surrounding states, its foreign born population grew significantly less. Table 1 presents changes between these two years in population and employment for selected demographic groups in Arizona and a set of nearby comparison states. One demographic group in particular that may be affected by LAWA is Mexican immigrants, as a recent estimate of the undocumented population in Arizona indicates that approximately 70 percent of the state's undocumented immigrants are of Mexican origin (Pew Hispanic Center, 2008). Quite strikingly, the table shows that individuals born in Mexico were particularly likely to leave Arizona compared to Mexicans in the surrounding states. The Mexican born population in Arizona shrunk by about three percent while over the same recent period the Mexican born population in the comparison states grew by more than 16 percent.

The patterns observed in Table 1 are consistent with Arizona's 2007 employer sanction legislation having its intended consequence of reducing employment of unauthorized workers. The number of employed Mexican immigrants in Arizona decreased significantly, by roughly 12 percent, between 2006 and 2008. The comparison states saw an *increase* in the number of employed workers born in Mexico by approximately 13 percent over the same period. These differences do not appear to be due to an overall stronger economic downturn in Arizona, as the growth in the number of native born employed workers appear to be virtually identical. Table 1 also reveals that the overall decline in low-skilled employment in

Arizona was greater than in the surrounding areas but that the relative decline was particularly strong among Mexican born workers with only a high school degree or less. [1]

In this paper we analyze the labor market impacts of state level legislation, such as LAWA. In particular, we assess whether such legislation reduces employment levels, individual employment probabilities, and wages for foreign-born non-citizens most likely to be undocumented.[2] We also assess whether the labor market outcomes of observably documented workers, such as naturalized immigrants or the native-born, are impacted by these laws. Labor demand theory yields unambiguous predictions with regards to the labor market impacts for the undocumented, yet ambiguous predictions for legal workers that depend on their degree of substitutability with undocumented labor. Moreover, the potential for statistical discrimination against authorized workers that may be perceived as unauthorized (for example, naturalized Hispanic immigrants) complicates a priori judgment as to the impacts of these laws. We analyze the impact of the Arizona legislation employing a series of quasi-experimental estimators using both within-state comparisons as well as comparisons across states. We also perform a similar analysis of more recent Mississippi legislation that will permit the construction of comparison groups based on firm size. Finally, we estimate a series of state-level panel data regressions that exploit all such states that have passed legislation targeted at restricting employment opportunities for undocumented immigrants.

There are at least three policy relevant contributions of this line of research. First, the research will provide information on whether state level legislation against the hiring of unauthorized workers achieves the objective of reducing the number of undocumented immigrants. Second, absent a comprehensive immigration reform, this research can inform policy makers what the effects are of enacting state level legislation against the hiring of undocumented workers. The research can then be used to inform debates on whether similar state level legislation should be considered in states that have not yet pursued such policies and whether states currently employing such legislation should consider revoking it. Third, future comprehensive immigration reform is likely to address the currently lax enforcement of employer sanctions. The federal government's development of the E-verify system, used to verify employment eligibility, suggests the plausibility of making it mandatory for employers to verify work eligibility for new hires as part of such a reform. The Arizona legislation, which makes participation in E-verify mandatory and adopts employer sanctions, hence allows for the first evaluation of the impacts of such a policy. The Arizona results may be interpreted as an upper bound of the labor market impacts, given likely higher labor demand elasticity at the state level, compared to the national level.

Empirical Method

Our empirical strategy revolves around a series of difference-in-difference calculations using alternative groups of adults defined by education, race/ethnicity, nativity, and legal immigration status. In some of our calculations, we intend to contrast the pre-post change in employment outcomes for different groups within the state of Arizona, the idea being that the theory predicts the sign of the relative change in employment between groups. The main strength of this strategy is that the alternative groups in the comparison will be subjected to the same economic forces impacting the state's economy, excepting the differential impact of the legislation of course. The main weakness of this strategy is that each comparison group should be impacted by the legislation through the labor demand channels discussed in the previous section; that is to say, it is difficult to identify a within-state comparison group that serves to

[1] The table also indicates that the growth in the *number* of low-skilled Mexican born immigrants in the surrounding states is twice the decrease observed in Arizona, and hence is not entirely due to a "spillover effect".

[2] The data used do not allow for identification of undocumented immigrants at the individual level. However, based on existing research, we can define groups particularly likely to include high proportions of unauthorized workers, for example younger recently arrived non-citizen immigrants of Mexican origin with less than a high school degree residing in metropolitan areas (Passel and Cohn, 2008).

chart out the counterfactual employment path for the likely impacted group while not being impacted by the legislation itself. Hence, it is impossible to identify the absolute effect of the legislation on the employment outcomes of each group with within-state comparison groups (i.e., we can identify relative effects only).

To address this weakness, we will also perform a series of difference-in-difference estimates using comparison groups from neighboring states. Here, the main strength concerns the fact that the Arizona legislation is considerably less likely to have a direct impact on labor market outcomes for the comparison group. The key weakness of this alternative strategy is that the comparison groups, being residents in different states, may be subject to different temporal economic shocks when compared with workers in Arizona. Nonetheless, the results of the two strategies presented side-by-side should allow us to triangulate whether LAWA measurably impacted the Arizona labor market. In addition to these difference-in-difference estimates using the Arizona law to define the natural experiment, we are also proposing to use the broader set of states passing similar legislation and an alternative identification strategy to test for impacts of such legislation on population, employment totals and employment rates.

Data

We will utilize individual monthly data from Current Population Survey (CPS) for the period 2006- 2009 as well as, data from the 2006-2008 American Community Surveys (ACS).[3] The monthly CPS data provide microdata on the employment and demographic characteristics of individuals with state-level geographic identifiers as well as information on race/ethnicity, education, age, other demographic characteristics, and most importantly legal immigration status (i.e. naturalized citizen or not). The data from the American Community Survey provide similar information and hence data from the ACS and the CPS can be combined to maximize sample size and increase precision. Both data sets permit identification of immigrants as well as distinction between naturalized foreign-born U.S. citizens and non-citizen foreign born. We intend to use these variables in conjunction with information on race, ethnicity, gender and education to define the relevant comparison groups.

[3] The 2008 ACS is not yet available, but its release is expected in the fall of 2009.

Table 1. Changes in Population and Employment, March 2006-March 2008, Arizona and Comparison States.

Population						
	Overall		Foreign Born		Mexican Born	
	Arizona	Comparison	Arizona	Comparison	Arizona	Comparison
Pre	6,045,685	11,623,341	985,424	1,896,179	714,182	1,057,248
Post	6,366,558	12,043,304	995,323	2,082,337	692,563	1,231,634
Change	320,873	419,963	9,899	186,158	-21,619	174,386
Pre-Post Growth	5.31%	3.61%	1.00%	9.82%	-3.03%	16.49%
Difference-in-Difference	1.69%		-8.81%		-19.52%	
Employment						
	Native Born		Foreign Born		Mexican Born	
	Arizona	Comparison	Arizona	Comparison	Arizona	Comparison
Pre	2,273,158	4,229,139	563,635	1,102,789	408,810	617,235
Post	2,354,747	4,388,170	543,747	1,210,568	359,575	698,211
Change	81,589	159,031	-19,888	107,779	-49,235	80,976
Pre-Post Growth	3.59%	3.76%	-3.53%	9.77%	-12.04%	13.12%
Difference-in-Difference	-0.17%		-13.30%		-25.16%	
Employment, High School or Less						
	Native Born		Foreign Born		Mexican Born	
	Arizona	Comparison	Arizona	Comparison	Arizona	Comparison
Pre	856,402	1,722,326	362,103	734,466	324,447	525,605
Post	777,254	1,649,946	344,804	780,331	290,716	591,844
Change	-79,148	-72,380	-17,299	45,865	-33,731	66,239
Pre-Post Growth	-9.24%	-4.20%	-4.78%	6.24%	-10.40%	12.60%
Difference-in-Difference	-5.04%		-11.02%		-23.00%	

Notes: Pre period is March 2006, Post-period is March 2008, Comparison area consists of Nevada, New Mexico, Utah and Southern and central inland areas of California (San Bernadino-Riverside and Bakersfield). Data are from March CPS. No age restriction is imposed.