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The undocumented and business survival in the United States

Based on the severe economic contraction during the past six months, it is obvious why the topic of the economy receives so much attention as the economy directly weighs on the lives of citizens and businesses here and throughout the world. But the weight of the economy can have indirect effects as well, including potentially shifting attention from other policy issues.

For instance, a recent [Bloomberg News](#) article describes how economic troubles may affect potential immigration reform legislation.

"The long campaign to overhaul U.S. immigration laws may be derailed for yet another year—this time by the deteriorating economy."

The immigration debate is multifaceted, complex, and, at times, contentious. There are myriad issues to consider when entering into the immigration reform discussion, many of which are best left to the political process to decide. But, as the Bloomberg article describes, there is an important economic component to the immigration discussion. Economists can make a modest contribution to the debate by supplying unbiased research that touches on various aspects of the immigration question.

In that spirit, I offer up the results of [research I've done with my colleagues](#), Julie Hotchkiss of the Federal Reserve Bank of Atlanta and David Brown of Heriot-Watt University in Edinburgh. Our research looks into the potential impact of undocumented workers on firm survival and is based on confidential information from the state of Georgia, which between 2000 and 2008 experienced the fastest growth in the number of undocumented immigrants in the United States, according to the Department of Homeland Security.

In this research, we find that firms employing undocumented workers enjoy a competitive advantage over firms that do not employ undocumented workers. We also observe that firms engage in herding behavior, i.e., firms will employ undocumented workers if their competitors do. The herding behavior is a natural consequence of competitive pressure: Rival firms' undocumented workforce lowers a firm's survival probability, while a firm's own undocumented workforce strongly enhances that firm's survival prospects.

Our analysis suggests that cost savings enjoyed by firms employing undocumented workers is a result of paying these workers wages that are less than what is paid to comparable documented workers. Because the advantage of hiring undocumented workers is cost-related, herding behavior and competitive effects are weaker if firms have the option to shift labor-intensive production out of state or abroad.

Our findings have several implications relevant to the policy discussion. The most straightforward prediction would be that if immigration reform is successful in forcing firms to pay undocumented workers market wages, the competitive advantage of hiring these workers may disappear. As a consequence, the demand for undocumented workers might well dissipate.

In addition, reform efforts that reduced the supply of undocumented workers (e.g., through tougher border and worksite enforcement) would raise firms' production costs, which may have an impact on prices if firms pass through these additional costs to consumers. However, this last point is not a direct implication of our analysis.

One word of caution about this study: Our results are based on the payroll reports of employers. This study does not have information on the activities of undocumented workers that are not recorded on firms' official wage records.

There are, of course, many other aspects of immigration policy to be considered, and we are loath to characterize the results of our research as supporting any particular approach or conclusion. But we do hope it sheds some light on a debate that already has its fair share of heat.

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April 30, 2009 in [Immigration](#) | [Permalink](#)