

The Impact of Undocumented Workers

Julie L Hotchkiss

March 2008

Moderator: Welcome to Research Insights, an occasional podcast from the Federal Reserve Bank of Atlanta. Our topic today is the labor market experience and the impact of undocumented workers. We're talking with Atlanta Fed research economist and policy adviser Julie Hotchkiss. She's on the bank's regional team along with Myriam Quispe-Agnoli, who is a research economist and assistant policy adviser for the Atlanta Fed. Our conversation today follows the publication earlier this year of a working paper written by Julie and Myriam on the impact of undocumented workers. Thanks, Julie, for your time today. You and Myriam have written a very interesting and timely paper. My first question is, can you tell us how you came to write this paper?



Julie Hotchkiss: Well, obviously there's been a lot of public attention on the issue of undocumented immigrants lately, with the presidential campaign and every candidate having some platform point on how they're going to solve this problem of illegal immigration. And another example of the interest is that, as of November 2007, in all 50 states, 1,400 bills related to immigration or immigrants have been introduced. And 244 of those have become law in 46 of the states. So there's a lot of emotion wrapped up in this issue, and we felt like we'd like to contribute to the conversation by adding some empirical research and actually documenting whether or not, or what, the impact actually might be of the presence or the inflow of undocumented immigrants into the workforce.

Moderator: Very good, Julie. What is the takeaway from your research?

Hotchkiss: Well, basically, we use information and data from the state of Georgia, and we find that the presence of undocumented workers does have a statistically identifiable negative impact on documented worker wages. The wages of undocumented workers are also found to be lower in the industries that employ a greater share of undocumented workers directly as a result of the greater supply of this resource of undocumented workers in those industries. We also find that the arrival of new undocumented workers does more really to displace current, or already present, undocumented workers than it does to displace documented workers. The practical impact, however, of the presence of undocumented workers on the labor market outcomes of documented workers we find to be very small from a practical perspective.

Moderator: Well, that's really interesting, Julie. If the impact of the undocumented workers is small, we keep hearing in the media about immigration as an issue. Could you explain that a little further?

Hotchkiss: Well, we have had estimates and measures of the increase in the number of undocumented workers coming into the U.S. and into Georgia in particular. In fact, the U.S. Department of Homeland Security's Office of Immigration Statistics estimates that the number of the undocumented population in Georgia has grown by 123 percent between 2000 and 2006. But that's a lot different in terms of the percent or the share of workers that's represented by undocumented workers. So, in fact, another study by the Center of Immigration Studies estimates that only about 7 percent of Georgia's workforce is undocumented. And what this amounts to, if we look at the workforce change, or the estimated change, between 2000 and 2006 is that there's been—even with this 123 percent of population growth of undocumented immigrants—there's only been a 3 percentage point increase in the share of workers in Georgia that are undocumented. That translates, based on our results, into basically a \$56 impact on the earnings of documented workers. That's about a half a percent of their earnings over this time period.

Moderator: \$56 over what period of time?

Hotchkiss: Per quarter...\$56 per quarter.

Moderator: OK, so it's a modest impact. Given that outcome, can you tell us a little bit about the policy implications of your research?

Hotchkiss: Well, since we did find, although it's small, the impact was statistically significant, the implication of course is that as the number of undocumented workers grows, that impact will grow as well. And so it really depends on what the goal is. For example, if the policy goal is to remove the negative wage impact of undocumented workers on documented workers, our research suggests that the way to do this would be to remove the ability of employers to take advantage of the inflexibility of undocumented workers in setting their pay. All right, so how do you do this? Well, one way might be to just keep out all undocumented workers. This is probably not a very practical solution. Another possibility is to perhaps legalize all the undocumented workers that are here. Well, that clearly is not going to be a very popular solution either. A third policy option, which would also have the effect of undermining employer monopsony power, which is the taking advantage of the inflexibility of undocumented workers, would be to create a permeable border. Now, this may not be any more popular or practical than the first two options,

but it does allow the flow of workers to be dictated by the demand of employers in the U.S. This would result in workers being legitimized by the U.S. government, and therefore, would be able to seek redress for grievances, and this would severely limit the employers' power to take advantage of their inflexibility that is currently present. Facilitating an employer's ability to draw workers from a larger pool when needed would also have to be accompanied by strictly enforced penalties for hiring undocumented workers.

Moderator: *Thanks, Julie. It's clearly a very complex issue that you've addressed in your paper. Again, we've been speaking with Atlanta Fed research economist and policy adviser Julie Hotchkiss. This concludes our Research Insights podcast on the impact of undocumented workers. You can find the entire working paper on the Atlanta Fed Web site, frbatlanta.org. Thanks for listening, and please return for more podcasts.*

Related Links

Atlanta Fed Working Paper: [The Labor Market Experience and Impact of Undocumented Workers](#)

Podcast [in Spanish](#)