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U.S. ECONOMY

The Thorny Economics of Illegal Immigration

Arizona's economy took a hit when many illegal immigrants left, but benefits also materialized



Rob Knorr, on his farm in Maricopa, Ariz., says it became harder to hire field hands after the state passed tough anti-immigration laws. PHOTO: BRANDON SULLIVAN FOR THE WALL STREET JOURNAL

By *Bob Davis*

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MARICOPA, Ariz.—After Arizona passed a series of tough anti-immigration laws, Rob Knorr couldn't find enough Mexican field hands to pick his jalapeño peppers. He sharply reduced his acreage and invested \$2 million developing a machine to remove pepper stems. His goal was to cut the number of laborers he needed by 90% and to hire higher-paid U.S. machinists instead.

"We used to have many migrant families. They aren't coming back," says Mr. Knorr, who owns RK Farms LLC, an hour's drive from Phoenix.

Few issues in the presidential campaign are more explosive than whether and how much to crack down on illegal immigration, which some Republican candidates in particular blame for America's economic woes. Arizona is a test case of what happens to an economy when such migrants leave, and it illustrates the economic tensions fueling the immigration debate.

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Economists of opposing political views agree the state's economy took a hit when large numbers of illegal immigrants left for Mexico and other border

states, following a broad crackdown. But they also say the reduced competition for low-skilled jobs was a boon for some native-born construction and agricultural workers who got jobs or raises, and that the departures also saved the state money on education and health care. Whether those gains are worth the economic pain is the crux of the debate.

Gordon Hanson, a University of California at San Diego economist who has studied the issue for the nonpartisan Council on Foreign Relations, has detailed how large-scale immigration undermines wages for low-skilled workers. In Arizona's case, he thinks the state is paying an economic price for its decision. "As the U.S. economy continues to recover, the Arizona

economy will be weighed down by slower growth and by less export production in traditional industries” such as agriculture where illegal immigrants play a big role, he says.

Proponents of doing more to curb illegal immigration say the mass departures helped the state economically in several ways. Government spending on health care and education for illegal immigrants and their U.S.-born children dropped. Wages for plasterers, landscapers, farmworkers and other low-skilled laborers jumped because of scarcity, according to employers and federal data.

“Even if the size of the state’s GDP decreased, the decrease in immigration redistributed income from employers to employees, particularly at the bottom end of the labor market,” says Steven Camarota, research director of the Center for Immigration Studies, in Washington, which favors reduced illegal immigration. “That’s a good deal.”

Big drop

Between 2007 and 2012, Arizona’s population of undocumented workers dropped by 40%—by far the biggest percentage decline of any state—according to the Pew Research Center, a nonpartisan think tank whose numbers are cited by pro and anti-immigration groups. California, the biggest border state, lost just 12.5% of its illegal immigrants during that time period. Since 2012, Arizona’s illegal-immigrant population hasn’t grown much, if at all, according to state economists and employers and preliminary data from Pew. Since 2007, about 200,000 undocumented immigrants have left the state, which has a population of 6.7 million.

The cost of illegal immigration has been a big political issue in Arizona for years. But pinning down exactly how much it costs the state, and how much is collected from illegal immigrants through taxation, is surprisingly hard to do. The state doesn’t count it. Estimates vary widely, depending in part on debatable issues such as whether to include the cost of educating U.S.-born children of illegal immigrants.

In 2004, the Federation for American Immigration Reform, a Washington-based group that seeks to reduce immigration, calculated that undocumented workers cost Arizona taxpayers more than \$1 billion a year for education, medical care and incarceration, after subtracting the estimated taxes they pay.

Four years later, Judith Gans, then manager of the immigration-policy program at the University of Arizona’s Udall Center for Studies in Public Policy, examined the issue for all immigrants, not just illegal ones. She concluded that immigrants accounted for nearly \$1 billion more in annual tax revenue than they cost the state.

Moody’s Analytics looked at Arizona’s economic output for The Wall Street Journal, with an eye toward distinguishing between the effects of the mass departures of illegal immigrants and the recession that hit the state hard beginning in 2008. It concluded that the departures alone had reduced Arizona’s gross domestic product by an average of 2% a year between 2008 and 2015. Because of the departures, total employment in the state was 2.5% lower, on average, than it otherwise would have been between 2008 and 2015, according to Moody’s.

The recession, of course, also hurt the state’s economy. Mr. Hanson, the immigration economist, said the economic downturn led many migrants to leave.

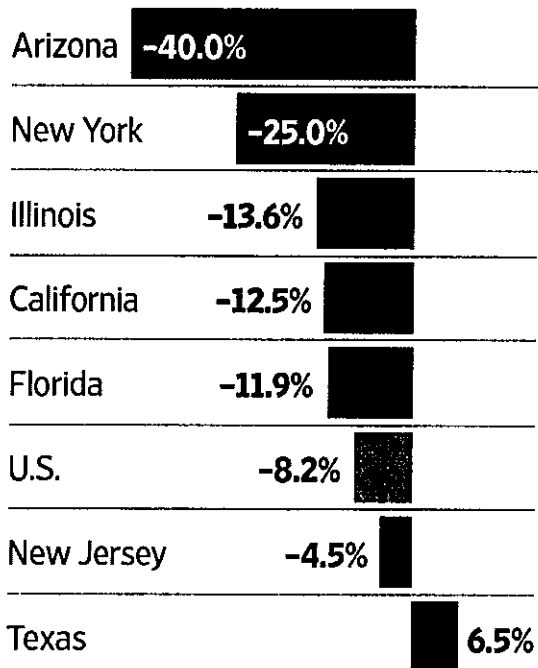
Economic activity produced by immigrants—what economists call the “immigration surplus”—shrank because there were fewer immigrants around to buy clothing and groceries, to work and to start businesses.

These days, construction, landscaping and agriculture industries, long dependent on migrants, complain of worker shortages. While competition for some jobs eased, there were fewer job openings overall for U.S.-born workers or legal immigrants.

According to the Moody’s analysis, low-skilled U.S. natives and legal Hispanic immigrants since 2008 picked up less than 10% of the jobs once held by undocumented immigrants. In a separate analysis, economists Sarah Bohn and Magnus Lofstrom of the Public Policy Institute of California and Steven Raphael of the University of California at Berkeley conclude that employment declined for low-skilled white native workers in Arizona during 2008 and 2009, the height of the out-migration. One bright spot: the median income of low-skilled whites who did manage to get jobs rose about 6% during that period, the economists estimate.

Departed

Estimated change in illegal-immigrant population, 2007-12, in seven big states and the U.S.



Source: Pew Research Center
THE WALL STREET JOURNAL.

Arizona's population of illegal immigrants grew nearly fivefold between 1990 and 2005, to about 450,000, according to Pew Research. Starting around 2004, the state approved a series of measures, either by ballot initiatives or legislation, aimed at discouraging illegal immigration. Undocumented immigrants in Arizona, about 85% of whom came from Mexico, are barred from receiving government benefits, including nonemergency hospital care. They can't receive punitive damages in civil lawsuits. Many can't get drivers' licenses and aren't eligible for in-state tuition rates. Arizona developed a national reputation for tough enforcement of the rules.

Some current Republican presidential contenders also take a tough line on immigration. GOP front-runner Donald Trump backs a "deportation force" to send home those here illegally, and he wants to build a wall on the Mexican border to keep out others. Texas Sen. Ted Cruz also wants a wall and would end Obama administration measures that have halted deportations of

many undocumented workers.

On the Democratic side, former Secretary of State Hillary Clinton and Vermont Sen. Bernie Sanders would allow illegal immigrants already here to become citizens, and would continue the Obama administration policies.

Arizona's immigration flow started to reverse in 2008 after the state became the first to require all employers to use the federal government's E-Verify system, which searches Social Security records to check whether hires are authorized to work in the U.S. That law coincided with the collapse of the construction industry and the recession. The combination persuaded many illegal immigrants to leave for neighboring states or Mexico.



Mr. Knorr, right, says he is relying more on machinery because he can't find enough Mexican field hands. PHOTO: BRANDON SULLIVAN FOR THE WALL STREET JOURNAL

In 2010, as the state economy began to recover, the Legislature stepped up pressure. Under a new law, SB 1070, police could use traffic stops to check immigration status. Another section of the law, later struck down by the Supreme Court, made it illegal for day laborers to stand on city streets and sign up for work on construction crews.

“It was like, ‘Where did everybody go?’ ” says Teresa Acuna, a Phoenix real-estate agent who works in Latino neighborhoods. Real-estate agent Patti Gorski says her sales records show that prices of homes owned by Spanish-speaking customers fell by 63% between 2007 and 2010, compared with a 44% drop for English-speaking customers, a difference she attributes partly to financial pressure on owners who had been renting homes to immigrants who departed.

SB 1070 prompted some unions and other organizations to boycott the state, in some cases canceling conventions. In Latino neighborhoods, sales declined at grocery stores and other businesses catering to migrants. At the Maryvale Market, in an immigrant community of ranch homes, Ashok Patel says his business is down by half since 2008.

On the other side of the economic ledger, government spending on immigrants fell. State and local officials don’t track total spending on undocumented migrants or how many of their children attend public schools. But the number of students enrolled in intensive English courses in Arizona public schools fell from 150,000 in 2008 to 70,000 in 2012 and has remained constant since. Schooling 80,000 fewer students would save the state roughly \$350 million a year, by one measure.

During that same period, annual emergency-room spending on noncitizens fell 37% to \$106 million, from \$167 million. And between 2010 and 2014, the annual cost to state prisons of incarcerating noncitizens convicted of felonies fell 11% to \$180 million, from \$202 million.

“The economic factor is huge in terms of what it saves Arizona taxpayers,” primarily on reduced education costs, says Russell Pearce, who as a state senator sponsored SB 1070.

Worker shortage

As the Arizona economy recovered, a worker shortage began surfacing in industries relying on immigrants, documented or not. Wages rose about 15% for Arizona farmworkers and about 10% for construction between 2010 and 2014, according to the Bureau of Labor Statistics. Some employers say their need for workers has increased since then, leading them to boost wages more rapidly and crimping their ability to expand.

Before the immigration crackdown, Precise Drywall Inc., of Phoenix, would deploy 50 people for jobs building luxury homes. “I could pull out phone books where I had 300 or 400 guys’ numbers” to fill out crews, recalls company President Jeremy Barbosa. No longer. Many immigrants left and haven’t returned, while other workers moved on to other industries.

“Now you have to put out feelers, buy ads, go on Craigslist, tap job agencies just to get a few men,” says Mr. Barbosa. “Growth is based on the ability to hire.”

At a Home Depot store in Maryvale recently, a dozen men from Mexico and Central America milled around the parking lot looking for work. Juan Castillo, a gregarious Mexican who said he had regularly crossed the border illegally over the past 10 years, said he and his colleagues can do landscaping, concrete work, drywall or whatever else is needed.

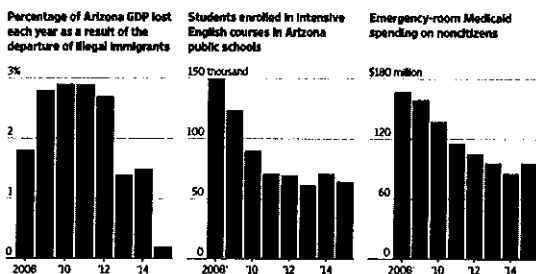
Before E-Verify, 30 to 40 men would show up at 4:30 a.m. and would usually find jobs by 10 a.m. Since then, the job seekers rarely thin out during the day despite the worker shortage because employers are shying away from hiring undocumented workers.

“E-Verify is a problem for us,” Mr. Castillo said. “We can work for a week. It takes that long for the paperwork. Then we’re out.”

Another would-be worker, Manuel Bernal, noted that because the Mexican economy has improved, laborers with families in that country are more inclined to stay there. Pew Research says that, nationally, more Mexicans now are heading home than coming into the U.S. The Center for Migration Studies estimated the number of undocumented immigrants fell to 10.9 million in 2014, from 12 million in 2008.

The Economics of Outmigration

Arizona's economy took a hit when large numbers of illegal immigrants left following a crackdown, but the state saved money on education and health care.



*For years ending in June
Sources: Moody's Analytics; Arizona Department of Education; Arizona Health Care Cost Containment System THE WALL STREET JOURNAL.

The labor shortage has caused some wages to rise. Carlos Avelar, a placement officer at Phoenix Job Corps, a federal job-training center, says graduates now often mull two or three job offers from construction firms and occasionally start at \$14.65 an hour instead of \$10.

At DTR Landscape Development LLC, the firm's president, Dick Roberts, says he has increased his starting wage by 60% to

\$14.50 an hour because he is having trouble finding reliable workers.

One immigrant-heavy industry, construction, has added about 15,000 jobs in Arizona since 2011 and now has total employment of 127,000, according to the Bureau of Labor Statistics, half the number of 2006. Employment in farming, which also depends on immigrants, has rarely exceeded 9,500 since 2008, according to the bureau, whose numbers mainly cover workers on large farms.

Mr. Knorr, the pepper grower, says he planted just 120 acres last year, down from as many as 550 in years past, because he couldn't find enough harvest workers.

Some peppers he was unable to harvest by Thanksgiving turned red on the vine—"chocolate," in farmer parlance. That made them useless to salsa makers, who want only green peppers. He plowed the plants under.

He says mechanization is his future. He continues to pour time and money into a laser-guided device to remove stems from peppers, which pickers now do by hand in the field. Another farmer in the area developed a mechanical carrot harvester.

Mr. Knorr says he is willing to pay \$20 an hour to operators of harvesters and other machines, compared with about \$13 an hour for field hands. He says he can hire skilled machinists at community colleges, so he can rely less on migrant labor.

"I can find skilled labor in the U.S.," he says. "I don't have to go to bed and worry about whether harvesting crews will show up."

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