
Introduction

Immigration is an issue capable of dividing like-minded people. Even groups whose members tend to agree on political issues—liberals, conservatives, isolationists, internationalists, environmentalists, free marketers—rarely share uniform opinions on US immigration policy. Neither major political party is unified in its position on the degree to which US borders should be open to foreign citizens.

Among Republicans, the business lobby persistently advocates for access to foreign labor. Emphasizing the economic benefits of immigration, the National Association of Manufacturers argues that “foreign nationals have made enormous contributions to US companies, our economy and society as a whole. To continue our economic and technological preeminence, we need to ensure that we have access to the talent we need to lead and compete” (www.nam.org). But many conservative groups oppose immigration on the grounds that it expands the welfare state, dilutes American culture, and threatens national security.¹ This split within the party manifested itself most recently in response to President Bush’s 2004 pro-

1. According to Representative Tom Tancredo (R-CO), a leading congressional opponent of immigration, “There are 9 to 11 million illegal aliens living amongst us right now, who have never had a criminal background check and have never been screened through any terrorism databases. Yet the political leadership of this country seems to think that attacking terrorism overseas will allow us to ignore the invitation our open borders present to those who wish to strike us at home” (www.house.gov/tancredo/Immigration). Former Republican presidential candidate Pat Buchanan adds, “If America is to survive as ‘one nation,’ we must take an immigration ‘time out’ to mend the melting pot. . . . The enemy is already inside the gates. How many others among our 11 million ‘undocumented’ immigrants are ready to carry out truck bombings, assassinations, sabotage, skyjackings?” (www.issues2000.org/)

posal to grant illegal immigrants temporary legal status as guest workers, an initiative supported by business interests. The sharpest criticism of the plan came from lawmakers in Bush's own party. "Our offices have been inundated with calls from dismayed constituents expressing vehement opposition to the Administration's proposal," reported a letter from two dozen congressional Republicans. "Respect for the rule of law is a core conservative value. . . . We cannot continue to allow our immigration laws to be violated and ignored. . . . Illegal aliens are by definition criminals."²

Democrats are no more united. Union leaders have joined forces with Latino groups in support of permanent legal immigration and an amnesty for illegal immigrants.³ But this stance runs counter to the opinions of many rank-and-file union members, who tend to favor closed borders (Scheve and Slaughter 2001a). Environmentalists are also split on immigration, due to its effects on US population growth. In 2004, an anti-immigration bloc attempted to gain control of the Sierra Club's board. The move failed, but the issue remains a source of conflict within the environmental movement.⁴

Such internecine disputes over immigration mirror differences of opinion in the electorate as a whole. When asked recently about immigrants' contributions to US society, over two-thirds of survey respondents acknowledged positive contributions (Scheve and Slaughter 2001b). But when asked what level of immigration they considered desirable, nearly half favored reducing the number of those admitted. The public thus appears to be roughly divided between those who favor scaling down immigration and those who support maintaining it at current levels. Americans appear to believe that immigration offers a range of potential benefits to the nation but simultaneously to worry about the associated costs of admitting large numbers of foreigners.

One result of divisiveness is inaction. Despite apparent agreement across the political spectrum that US immigration policy is in need of repair, the likelihood of serious reform appears slight. Current policy is widely faulted for failing to enforce at US borders and leaving large num-

2. Susan Jones, "Republican Lawmakers Won't Back Bush on Immigration," CNSNews.com, January 26, 2004. See also Christopher Wills, "Immigration, Bush Proposal Divides Republican Candidates," AP Wire, February 1, 2004, and Valerie Richardson, "Republicans Warn Bush on Immigration Policy," *Washington Times*, January 28, 2004.

3. The AFL-CIO endorses granting legal status to illegal immigrants but opposes guest-worker programs that provide immigrants anything less than full labor rights, www.aflcio.org/. This position is similar to that of the National Council of La Raza, www.nclr.org, whose president praised the AFL-CIO's decision to support an amnesty: "This policy change makes the full labor movement a partner in the immigrants' rights movement; we welcome their strong defense of immigrant workers. We applaud organized labor for taking this wise and courageous action."

4. See Juliet Eilperin, "Immigration Issue Sparks Battle at Sierra Club," *Washington Post*, March 22, 2004, A02.

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bers of individuals in legal limbo. The US Census Bureau calculates that 300,000 to 500,000 net new illegal immigrants enter the United States each year (Costanzo et al. 2001). In 2004, the illegal population was estimated at 10.3 million, up from 3.8 million in 1990 (Passel 2005). In the aftermath of the 2001 terrorist attacks, the security of US borders has assumed renewed urgency. Yet border enforcement remains ineffective and the government still lacks the ability to track temporary legal immigrants.⁵

Few politicians or voters would endorse such high levels of illegal immigration or inadequate border controls. These outcomes appear to result from accommodation of opposing interests. Business lobbies for freer immigration but is countered by a diverse coalition that opposes open borders. The result is a system in which the government restricts the level of permanent legal immigration but allows less-visible types of immigration to adjust by changing the number of temporary work visas and the intensity with which it discourages illegal entry. Business gets access to foreign labor, but a third or more of these workers are illegal and many others are subject to the constraints of temporary immigration status. Illegality exposes US companies to legal risks and uncertainty about the labor supply and denies immigrants legal protections, ease of movement between jobs, and incentives to acquire skills and improve their communities.

Sources of Political Opposition to Immigration

Like international trade, foreign investment, and other aspects of globalization, immigration changes the distribution of income within a country. In the United States, a disproportionate number of immigrants have low skill levels: 33 percent of all foreign-born adults (both legal and illegal immigrants) had less than 12 years of education in 2003, compared with only 13 percent of native-born adults. By increasing the relative supply of low-skilled labor, immigration puts downward pressure on the wages of low-skilled native-born workers. George Borjas (2003) finds that between 1980 and 2000 immigration had the largest effect on the low-skilled, reducing the wages of native-born high-school dropouts by 9 percent.⁶ The expanding supply and declining wages of low-skilled labor benefit labor-intensive industries, such as agriculture and apparel. Given these labor-market repercussions, we would expect low-skilled workers to be among

5. See Camarota (2002). In 2004 the US government announced that a contract had been awarded to the firm Accenture to develop a system to manage US borders and monitor entry and exit by foreigners, www.dhs.gov/dhspublic/index.jsp.

6. Many early studies of the labor-market consequences of immigration found that its wage impacts were small (Borjas 1999b). Recent studies find, however, that immigration depresses wages for the native workers most likely to substitute for immigrant labor (Borjas, Freeman, and Katz 1997; Borjas 2003).

those most opposed to immigration. In public-opinion surveys on immigration policy, Kenneth Scheve and Matthew Slaughter (2001b) found that opposition to immigration is indeed higher among the less educated, mirroring their skepticism about globalization in general.⁷

It does not appear, however, that labor-market effects alone can explain the current political divide on immigration. Adversely affected workers account for a relatively small share of the US electorate, both because the number of high-school dropouts is small and because they are relatively unlikely to vote. Clearly, there are other sources of opposition to immigration besides its consequences for labor markets. Among its myriad other effects, immigration alters public finances and politics at the local and national levels. Immigrants pay taxes, use public services, and, after naturalization, vote.

Concern that admitting low-skilled foreigners raises the net tax burden on US natives contributes to opposition to immigration. Low-skilled immigrants tend to earn relatively low wages, to contribute relatively little in taxes, and to enroll in government entitlement programs with relatively high frequency. There is abundant evidence that immigrants make greater use of welfare programs than do natives (Borjas and Hilton 1996; Borjas 1999a; Fix and Passel 2002). This pattern has persisted even after welfare reform in 1996 restricted immigrants' access to many government benefits (Zimmerman and Tumlin 1999; Fix and Passel 2002). In states with large immigrant populations, such as California, immigration appears to increase net burdens on native taxpayers substantially (Smith and Edmonston 1997).

This essay will examine the interplay between public finance and immigration policy.⁸ Immigration affects the incomes of natives and earlier immigrants through its impacts on labor markets and on government taxes and transfers. By increasing the relative supply of low-skilled labor, immigration clearly tends to lower the pre-tax income of low-skilled labor relative to that of high-skilled labor. These labor-market outcomes help create opposition to immigration among the less-skilled. But immigration also affects after-tax income. If immigrants have access to public assistance, public education, and other public services, and if their contributions to tax revenues are insufficient to pay for their use of these services, governments will have to raise taxes on others, reduce services to others, and/or borrow from future generations. Any of these actions is likely to be unpopular, creating the potential for political action against immigration by individuals who expect to bear its costs.

7. See Rodrik (1997, 1998), Scheve and Slaughter (2001a, 2001b, 2001c, 2004), O'Rourke and Sinnott (2001, 2003), Mayda and Rodrik (2002), Hainmueller and Hiscox (2004), and Mayda (2004).

8. I will draw heavily on the analysis and results of Hanson, Scheve, and Slaughter (2005).

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The substantial variation in the tax structures and spending policies of US states helps shape the politics of immigration. California and New York, for instance, impose high state income taxes and provide generous public benefits, while Florida and Texas have no state income tax and provide markedly less generous benefits. States also vary in the sizes of their immigrant populations. A handful of states—California, Florida, Illinois, New Jersey, New York, and Texas—have for several decades served as gateways for immigrants (Borjas 1999a). Most new immigrants settle in one or another of these states, disproportionately exposing their residents to the economic consequences of immigration. Recently settlement patterns have begun to change, exposing new regions to the direct effects of immigration. Since the 1990s, the Mountain, Southern, and Plains states—including, notably, Arizona, Colorado, Georgia, Nevada, and North Carolina—have begun to attract large numbers of immigrants (Passel and Zimmerman 2001; Card and Lewis 2005). Interaction between local tax and spending policies and the size of the local immigrant population determines who is subject to the costs and benefits of immigration, affecting which voters will favor immigration and which will not.

In the absence of distortionary tax and spending policies, economic theory suggests that low-skilled immigration would be supported by educated, high-skilled workers and opposed by less-educated, low-skilled workers. The available evidence is consistent with this prediction (see note 8). Theory also suggests that the positive correlation between skill and support for immigration would be strongest in states without generous welfare programs, where the labor-market effects of immigration are likely to outweigh the public-finance effects. In states whose public assistance to immigrants is more generous, the consequences of immigration for public finances are likely to be more influential politically. If such benefits are financed by progressive income taxes, as in California and New York, high-skilled, high-income individuals—who are most exposed to the fiscal burden associated with immigration—may join the low-skilled in opposing open borders.

A Tale of Two Governors

To understand better how public finance affects the politics of immigration, consider the recent histories of California and Texas. In the mid-1990s, both states had fiscally conservative governors who were rising stars in the Republican Party. Pete Wilson, elected in 1990, and George Bush, elected in 1994, were being touted as potential candidates for president; both had a great deal on the line politically.

Both governors faced difficult fiscal environments. California, battered by the post-Cold War decline in defense spending, experienced a severe recession in 1990–91 that left the state short on tax revenues. Wilson’s bat-

tle with the state legislature over cuts in spending led to a two-month suspension of government payments. Texas bore the brunt of the savings-and-loan crisis in the late 1980s and sharp fluctuations in oil prices in the late 1980s and early 1990s. Meanwhile both states were absorbing much of the national surge in immigration. During the 1990s, as the foreign-born share of the US population grew from 8 percent to 11 percent, fully 37 percent of immigrants chose to reside in one of those two states (compared to only 17 percent of the native-born population).

Initially, Bush and Wilson appeared very similar politically. Both were unabashed free traders, and both strongly supported the North American Free Trade Agreement. When it came to immigration, however, they took very different approaches. Wilson made restrictions on public benefits for immigrants the centerpiece of his strategy to control spending in California. Most memorably, he backed Proposition 187, a ballot measure to deny public services to illegal immigrants.⁹ Bush embraced Texas's immigrant population and courted Latino voters, even campaigning in Spanish.¹⁰ He distanced himself from Proposition 187 and declared that he would not support such a measure in Texas.¹¹ In his 1998 gubernatorial bid, Bush won 49 percent of the Latino vote (and 69 percent of the total vote), the strongest showing ever among Texas Hispanics by a Republican in a statewide electoral race.¹²

History has already rendered its verdict on these strategies: Bush became president, and Wilson's success was short-lived. He did manage to get Proposition 187 passed, with the support of 59 percent of California voters. Subsequent political backlash against the measure, however, led to successful court challenges and inspired the Latino community and other pro-immigrant groups to organize in opposition to Wilson and the state Republican Party ("Nothing but Gravel in Their Pan," *The Economist*, March 7, 2002). The legacy of Proposition 187 appeared to contribute to the party's poor showing in statewide elections in 1998 and to Wilson's failed 2000 presidential campaign.

The experiences of California and Texas demonstrate how local tax and spending policies can influence the politics of immigration. In California, with its progressive income taxes and generous public benefits, high-income voters—an important constituency within the Republican Party—saw immigration as increasing their tax burden. These individuals, along-

9. Julie Marquis, "Wilson Blames Ills on Illegal Immigrants," *Los Angeles Times*, October 17, 1994, B1.

10. R. G. Ratcliffe, "Bush Ads Aim for Big Share of Hispanic Vote; Governor Speaks Spanish in Radio Spots," *Houston Chronicle*, August 15, 1998, A33.

11. Juan Palomo, "The Cool Headed Governor," *Hispanic Business*, December 1995, 12–16.

12. Ken Herman, "Bush Proves Ethnic Bona Fides," *Atlanta Journal and Constitution*, November 13, 1998, 4C.

side conservatives who opposed illegal immigration on law-and-order grounds, were an important source of pressure on Wilson to restrict fiscal transfers to immigrants (Louis Freedberg, "Wilson Defends Stance on Illegals," *San Francisco Chronicle*, June 23, 1994, A2). Texas, by contrast, has a weaker safety net and relies on regressive forms of taxation, including a sales tax. The state's high-income voters may have perceived immigration as having less impact on their tax obligations, giving Bush greater latitude in addressing the issue.¹³ In Texas and other states where the labor-market effects of immigration tend to overshadow its public-finance effects, political opposition to immigration appears to be less organized.

Noneconomic Factors and Attitudes Toward Immigration

Pressures on labor markets and public finances are by no means the only sources of opposition to immigration. It has long been argued that immigration undermines US culture (Daniels 2003, Tichenor 2002). In his 1996 and 2000 presidential bids, Patrick Buchanan attempted to tap into public discontent over bilingual education and increasing ethnic diversity. Some of Buchanan's arguments are mirrored in Samuel Huntington's (2004) influential critique of recent immigration from Mexico and elsewhere in Latin America. Huntington claims that the culture and values of Latino immigrants differ from those of the predominantly European immigrants who came to the United States in the late 19th and early 20th centuries. These differences, Huntington contends, impede assimilation of Latino immigrants and slow the transfer of political loyalties from their home countries. As a result, the continuing surge in Latino immigration is weakening American identity.

Huntington singles out Mexican immigration both for its scale and for Mexico's contribution to inflows of illegal migrants and the concentration of immigrants in the southwest. The focus on Mexico is warranted: It has become the main source country for US immigration, accounting for over one-third of new immigrants since 1990. Evidence on whether Mexican immigration weakens American identity is, however, decidedly mixed. Huntington cites language and intermarriage as areas in which Mexican immigrants have been slow to assimilate. The data support this claim, but hardly exhibit glaring differences between immigrants from Mexico and those from other countries. After 10 years in the United States, 52 percent of Mexican immigrants report speaking English well or very well, compared to 63 percent of immigrants from other non-English-speaking coun-

13. Specifically, Texas's tax and spending policies may have allowed Governor Bush the political space to appear to be both pro-immigrant (to appeal to the state Latino vote) and fiscally conservative (to appeal to the party's base). See "Yo te quiero mucho," *The Economist*, September 28, 2000.

tries.¹⁴ Among marriages in which at least one spouse is Mexican American (second-generation or later), 48 percent are exogamous (that is, at least one of the spouses is not of Mexican ancestry) (Duncan and Trejo 2005). Members of other immigrant groups are more likely to be fluent in English and to marry outside of their national-origin group, but the differences between Mexican and other immigrants hardly appear large enough to warrant significant concern. More broadly, Mexican immigrants' strong commitment to work, family, community, and church—noted by observers across the political spectrum—appears to align with what Huntington identifies as traditional American values.

One area in which Mexican immigrants do stand out is educational attainment. Two-thirds of recent Mexican immigrants have not completed the equivalent of a high school education (Borjas and Katz 2005). This finding mirrors the low level of educational attainment that prevails in Mexico (and in many other developing countries). Though second-generation Mexican Americans complete 42 percent more schooling than their immigrant parents, progress in educational attainment appears to lag in the third and later generations (Grogger and Trejo 2002).¹⁵

Given their limited schooling, Mexican immigrants are likely to compete for jobs with low-skilled US natives. Limited schooling also contributes to low earning potential and low net contributions to government fiscal accounts, creating potentially adverse consequences for native taxpayers in the southwestern states where Mexican immigrants tend to congregate. A distinguishing feature of Mexican immigration, then, is that its economic effects are concentrated on specific groups of native workers and taxpayers. Putting aside the cultural ramifications of open borders, one wonders to what degree the concentrated economic consequences of Mexican immigration (and of Latino immigration more generally) explain why there appears to be strong support for Buchanan's and Huntington's calls to scale back immigration from Mexico and the rest of Latin America.

This essay will focus almost exclusively on economic motivations for political opposition to immigration. I will leave unexplored the claim that opposition to immigration is rooted in conflicts over identity. My analysis will thus give cultural arguments against open borders short shrift. In defense of this approach, I will present data that appear to show that economic motivations go a long way toward accounting for individual attitudes toward immigration policy.

14. Excluding immigrants from all Latin American countries, the share of the foreign-born population that reports speaking English well or very well rises to 66 percent. All figures on language ability are based on data from the 2000 US Census of Population and Housing.

15. Among Mexican Americans, years of schooling averaged 8.8 for the first generation, 12.2 for the second generation, and 12.3 for the third generation between 1982 and 2002 (Duncan and Trejo 2005). See Smith (2003) for an interpretation of the data that finds evidence of greater educational progress between the second and third generations.

The four chapters that follow develop my argument about the interaction between local public finance and preferences on immigration policy. Chapter 2 discusses current immigration policy using recent data from the Current Population Survey (CPS) to describe the evolution of US immigration trends. I will also review evidence on the labor-market consequences of immigration.

Chapter 3 examines immigrants' uptake of public benefits and the implied fiscal burden on native taxpayers. Variation in the size and composition of immigrant populations across US states suggests that immigrant demands for public services also vary by state. Furthermore, cross-state differences in the generosity of public benefits were made more extreme by federal welfare reform in 1996, which gave states discretion about which benefits to offer and whether to give immigrants access to those benefits. Among states whose immigrant populations are similar in size, those with more generous welfare programs in effect require each native household to pay for the benefits used by a greater number of immigrant households. States with generous benefits also tend to be those with progressive tax structures; thus higher-income households in these states are likely to shoulder a disproportionate share of the fiscal burden associated with providing public services to immigrants.

Chapters 2 and 3 suggest that the US residents most adversely affected by immigration will be low-wage workers, especially those in high-immigration states, and high-wage workers in high-immigration states with high immigrant uptake of welfare benefits. Chapter 4 uses data from National Election Studies surveys to examine whether opposition to immigration is stronger among individuals who expect to experience increases in labor-market competition or in net tax payments as a result of immigration. Consistent with previous studies, I find that opposition to immigration is stronger among the less educated, the group most exposed to the labor-market consequences of immigration. Building on the results of Hanson, Scheve, and Slaughter (2005), I also find the opposition of the low-skilled to be stronger in states with larger immigrant populations, where we expect the wage effects of immigration to be strongest. Among the highly educated, opposition to immigration is more intense in states where immigrants make greater use of means-tested entitlement programs. What appears decisive for this group is not residence in a high-immigration state *per se*, but residence in a high-immigration state characterized by high immigrant uptake of public assistance and other public benefits.

Chapter 4 suggests several potential strategies to defuse tensions over immigration and to move toward meaningful reform of US immigration policies. One such strategy is to alter the mix of immigrants admitted in favor of the high-skilled; this shift would reduce immigrant demand for public benefits and raise immigrant contributions to tax revenues. Another is to restructure immigrants' rights of access to public benefits, which would reduce immigrant draws on public expenditure.

In chapter 5, I discuss proposals for reforming US immigration policy. A shift toward skills-based immigration, as proposed by Borjas (1999a) and Huntington (2004), would eliminate the benefits that US consumers and employers derive from low-skilled immigration. It would also fail to confront the central question for US immigration policy: how to manage migrant inflows from Mexico. The impact on US wages of any shift from low-skilled to high-skilled immigration might also be partly offset by increased imports from, and US investment in, low-wage countries. Phasing in immigrant access to public benefits more slowly over time is a potentially more attractive and politically palatable approach to immigration reform. It would also create a framework in which policymakers could address Mexican immigration.

To be effective, any change in immigration policy must address illegal immigration. Enforcement at US borders, where immigration authorities currently devote most of their efforts, is ineffective. Despite massive increases in spending on border enforcement since the early 1990s, the inflow of illegal immigrants has not slowed. An alternative approach is to change the focus of enforcement to the hiring of illegal immigrants. Mandating information-sharing among immigration authorities, the Social Security Administration, and the Internal Revenue Service (via either a national identity card or electronic tracking of immigrants' visa status) would permit employers to verify instantly whether or not a potential employee is a legal immigrant. Such an approach could expand the capacity of immigration authorities to enforce against illegal immigration at workplaces in a manner that is effective, unobtrusive, and humane. The obtrusiveness of current efforts at enforcement in the US interior accounts in part for its political unpopularity.

During the 2004 presidential campaign, both candidates invoked immigration policy as an important topic deserving of attention. Both were predictably vague, however, about the best way to go about policy reform. The building consensus that US immigration policy is broken creates a political opening to address the issue. Continued inaction would be costly. Among other consequences, it would allow a large and growing segment of the US labor force to remain in a legal grey area, lacking the protections afforded by the law. Creating a strategy to reform immigration policy requires understanding, first, the economic consequences of immigration and, second, how these consequences shape public views on the number of foreigners who should be admitted to the United States.