

The New Alabama Immigration Law: A Preliminary Macroeconomic Assessment

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Economies are demand-driven so any policy, regulation, law, or action that reduces demand is misguided and will not contribute to economic development no matter how well-intentioned. Nobody can fault the intent of Alabama's recent immigration law, which is to deal with the illegal immigration issue. In fact the intent is truly admirable, but the law itself has serious economic costs mainly because it reduces demand in the state economy. Instead of boosting state economic growth, the law is certain to be a drag on economic development even without considering costs associated with enforcement of the law. Some might argue that enforcement expenditures will also help the economy. While true, it will take funds away from provision of other public services and as such is sure to have a net negative macroeconomic effect especially at a time when government funds are tight because of the contraction in demand.

Many farmers and business owners are already complaining about and fighting the law. It would help if one could conduct an analysis to determine what the effects of the law are likely to be because it would inform the debate on the law's likely outcomes. People can then focus on the outcomes to decide whether it is a law we should keep or repeal. Those who tend to favor the law focus on its intent but often not on its actual effects. Getting to the law's effects requires understanding how its easily identifiable direct effects work their way throughout the entire economy. Unfortunately, it is too early to perform a comprehensive analysis of the law's impacts as economic and socioeconomic data will have to be collected over time through surveys and regular data gathering channels. However, a preliminary macroeconomic assessment is possible and presented below.

The questions to ask in assessing a policy, regulation, law, or other action or activity include:

- (i) What is the intent or what do we want to achieve?
- (ii) What options are available to achieve the intent or goals?
- (iii) What are the outcomes of each option?
- (iv) What costs are involved in achieving the goals and how can they be minimized?
- (v) Are there any benefits to achieving the goals and if so, do they exceed the costs?
- (vi) If there are no identifiable benefits, how much are we willing to spend?
- (vii) What is the best option to pursue and at what pace?

At best, the new immigration law might help to reduce illegal immigration and lower the unemployment rate, but even those effects are not guaranteed. Economies have formal and informal components and the law is likely to drive a portion of the formal component into the informal, basically sending illegal immigrants out of state or underground. In either case demand in the Alabama economy is reduced since the income generated by these people and their spending will decline. That results in a shrinking of the state economy and will be seen in lower economic output, personal income, and fewer jobs than would otherwise have been. For example, conservatively assuming that an illegal worker makes \$5,000 a year (about \$20 a day for 250 days of work or some

other combination), the absence of say 10,000 illegal workers would mean a \$40 million contraction in the Alabama economy allowing for repatriation of 20 percent of income to home countries.

Will the law lower the unemployment rate by providing more jobs for legal residents and citizens? That depends on whether (i) illegal workers were counted in the employed and unemployed components of the labor force, (ii) unemployed legal residents and citizens have the skills and desire to take and hold on to those jobs at the wages that employers will be willing to pay if they continue operating, and (iii) domestic and international trade can substitute for those domestic activities which employed the illegal workers. The unemployment rate is a ratio of the number of unemployed to the number of people in the labor force. If illegal workers were not part of the labor force, then their absence resulting from the law will cause the unemployment rate to remain the same or decline. This is what proponents hope for. The unemployment rate will fall only if the vacated jobs are filled by unemployed legal residents and citizens who have the skills and desire to take and hold on to those jobs at the wages that employers will be willing to pay if they continue operating. If illegal workers were part of the labor force, then their absence resulting from the law can cause the unemployment rate to rise or fall. The August 2011 Alabama unemployment rate is 9.9 percent. Thus an unemployment rate decline will occur if more than 99 of every 1,000 vacated jobs are filled by unemployed legal residents and citizens. If less than 99 of every 1,000 vacated jobs are filled by unemployed legal residents and citizens, the unemployment rate will rise. The rise and fall in the rate is relative to what would otherwise occur. Anecdotal evidence to date seems to point to less than 99 of every 1,000 vacated jobs being filled by unemployed legal residents and citizens.

What about the argument that illegal immigrants are a drain on resources because they don't pay taxes? Yes, illegal immigrants use some public services but they do pay taxes and the economy enjoys some benefits as a result of the demand created by their presence. Also, they are not as much of a drain on the economic system as some think they are. First, at the level of income they receive many illegal workers will not have to pay federal income tax because of the standard deduction and personal exemption allowed. Indeed they could receive earned income tax credit, which many do not file for because they wish to remain below the radar and because their status makes it practically impossible. In addition, they make payroll taxes with little chance of ever benefiting from those social safety net programs unless somehow they become legal. They pay sales and property taxes directly and indirectly through their income spending and consumption activities. To properly address the question will require a longitudinal study. Although there's an ongoing debate about the costs and benefits of illegal immigrants, it is generally accepted that immigration, as a whole, has a net positive effect on the national economy. The debate is with regards to the illegal segment and its effects at state level.

Bottom-line, the law is well-intentioned but will be costly to the state economy even without consideration of enforcement costs. Is it possible to amend the new immigration law so that it keeps the admirable intent but also increases demand in the economy, brings more of the informal economy into the light, boosts economic development, and facilitates continuation of the economic strides that the state has been making? In short, what we need are laws and policies that will keep Alabama on a ROLL.

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