

PERSONALLY SPEAKING

Number 37

August 2007

**ECONOMIC DATA, ANALYSIS, AND POLICY:
THE PROBLEM OF ALIENS WORKING ILLEGALLY IN THE UNITED STATES**

**Edward J. O'Boyle, Ph.D.
Mayo Research Institute**

Even the casual observer of economic affairs knows that economic policy depends critically on the quality of economic analysis which in turn is grounded in the accuracy of the information used in that analysis. Three pieces of information are of particular concern: wages, production, and labor supply. On the national level the first and third are the responsibility of the U.S. Bureau of Labor Statistics (Labor Department). The U.S. Bureau of Economic Analysis (Commerce Department) is responsible for the second. The Board of Governors of Federal Reserve System and the President's Council of Economic Advisors are the key players in shaping economic policy. The serious student of economic affairs knows that for nearly the last 30 years the Board of Governors has played the dominant role. For reasons relating to the fear of detection, the large numbers of illegal immigrants in the United States are having unaccounted for effects on wages, production, and labor supply.

Wage Data. Monthly data on wages are analyzed and released to the public based on information collected by the Bureau of Labor Statistics in its *National Compensation Survey*. Included in the NCS are business establishments and state and local government agencies that are selected to represent economic activity in 152 areas across the United States. This area structuring allows the BLS to publish estimates of wages for the United States, for regions of the country, and for selected areas. Not included in the selection process are the self-employed, persons who set their own pay such as proprietors and partners in unincorporated businesses, volunteers, unpaid family workers being paid token wages, persons receiving long-term disability compensation, and U.S. citizens working abroad. The monthly estimates are subject to the usual sampling and nonsampling errors. Sampling error relates to the fact that only a portion of the entire universe of employers is being surveyed. Nonsampling error derives from a failure to collect information from the establishments and agencies included in the sample. The BLS publishes this monthly information in both nominal-wage and real-wage form.

Production Data. Four times a year the BEA surveys employers nationwide on the production of goods and services. This information is released to the public in final form three months after the close of the quarter to which the information refers. The raw data are used to produce two estimates: GNP and GDP. Gross national product is an estimate of the goods and services produced by all U.S. companies operating in the United States or in other countries. Gross domestic product is an estimate of the goods and services produced by all companies operating in the United States whether they are U.S. or foreign owned. Both estimates are adjusted to

remove the influence of changing prices so that the estimates reflect only changes in production denominated in constant dollars. Today the preferred measure is constant-dollar GDP because it relates to production within the United States that is more directly responsive to U.S. monetary and fiscal policy. Some employers deliberately underreport production because they are engaged in illegal activities such as tax evasion. No reliable estimates are available on the extent of production in the underground economy.

Labor Supply Data. The U.S. Census Bureau collects and processes information on employment and unemployment on a monthly basis from about 60,000 households that are selected at random. The collection instrument is known as the *Current Population Survey (CPS)*. This information is transmitted to the BLS for analysis and release to the public on the first Friday of the month following the month in which the data are collected. The large sample – between 120,000 and 180,000 persons are surveyed every month – assures a very small margin of error. Two estimates derive from the CPS: the number of persons employed and the number unemployed. The sum of the two is called the labor force. The unemployment rate is calculated as follows: unemployed ÷ labor force. At first glance, this tool seems to be designed to elicit information on the well-being of workers. However, it was designed to provide monthly information that complements the quarterly information on production, and to proxy for GDP/GNP information in the months when that information is not available. The CPS was launched experimentally in the late 1930s and has been collecting monthly information on the labor supply since the early 1940s. Other estimates of employment are available from the *Current Employment Survey (CES)* based on responses from a very large sample of employers selected at random. The CES is narrower in scope than the CPS because it does not include the self-employed, unpaid family workers, agricultural workers, or private household workers.

In June and July Mayo Research Institute inquired of the BLS regarding the counting of illegal aliens in the CPS and the CES. Here is the Bureau's reply:

Neither the establishment [CES] nor household [CPS] survey is designed to identify the legal status of workers. Thus, while it is likely that both surveys include at least some undocumented immigrants, it is not possible to determine how many are counted in either survey.

... it is not possible to estimate their number and, therefore, we do not make any adjustments to [the CES] data.

Your question talks about adjustments [to the CPS estimates] if any for undocumented aliens who deliberately misrepresent their labor force status. Since no questions are asked about their legal status, there is no way of knowing if there are any misrepresentations and who the illegal aliens are.

We asked the BLS about any adjustments to the wage data for the presence of immigrants who are working illegally. This is the Bureau's response:

The NCS does not use any means to adjust wages for illegal workers. We simply ask the company to tell us how many employees they have, their job duties and title, and how much are they paid and over what period of time.

The BEA response in July to the Institute's questions regarding the impact on GNP/GDP estimates of undocumented immigrants working illegally could not have been more succinct:

BEA makes no estimates of the underground economy or any illegal activity.

One general conclusion necessarily follows. The federal government's official statistics on wages, production, and labor supply do not fully take into account the millions of illegal aliens working in the United States. Four other more specific conclusions also follow though not with absolute certainty. First, wages on average are lower than reported by the BLS because illegals work at lower rates of pay than do others in the labor force doing the same work. Their lower acceptance wage is what makes them attractive to employers. Second, GDP is higher than is reported because at least some of those who employ illegals do not fully report the production derived from their work efforts for fear of public disapproval. Third, employment no doubt is higher than estimated whether the data come from the CES or CPS because employers and householders have good reason to underreport the employment of those who are working illegally. Fourth, because fear of detection may lead some of the undocumented to answer the CPS in ways that lead them to be classified as not in the labor force when in fact they are jobless, the total number of persons unemployed may be higher than what is reported by the BLS every month.

The quality of the information on wages, production, and labor supply is not likely to improve unless the issue of illegal immigration is addressed satisfactorily. Until then, the task of doing the analytical work necessary to properly inform economic policy-makers remains more problematical and the findings from that work more questionable.

Edward J. O'Boyle is Senior Research Associate with Mayo Research Institute located in West Monroe, Louisiana. Since he completed his doctorate in economics from Saint ,Louis University more than 30 years ago, Dr. O'Boyle has been specializing in economic research and analysis increasingly from the perspective of the human person engaged in everyday activities both as a unique individual and as a community member. In January 2004 the Association for Social Economics conferred on Dr. O'Boyle its prestigious Thomas Divine Award for lifetime contributions to social economics and the social economy. He taught economics at a state university in Louisiana for 30 years prior to his retirement in 2007.

*Mayo Research Institute 1217 Dean Chapel Road West Monroe, Louisiana 71291
318-396-5779 edoboyle@earthlink.net*