



Competitive Enterprise Institute

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Advancing Liberty – From the Economy to Ecology

February 7, 2012

No. 177

The Conservative Case for Immigration Tariffs

A Market-Based, Humane Approach to Solving Illegal Immigration

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Americans have a remarkable history of welcoming immigrants and helping them assimilate. Most Americans can trace their ancestry to another country. But while Americans are magnanimous toward immigrants, federal immigration policy has not been as accommodating.¹ Moreover, the law lags behind economic reality. Demand for immigrant workers has slackened because of the poor economy. Vigorous enforcement efforts have had very little impact. In 2010, there were roughly 11 million² unauthorized immigrants in the United States. Persistent and increasing efforts to enforce our restrictive immigration laws have failed because the economic forces of supply and demand that drive so many immigrants to our shores cannot be repealed through legislation or stopped by a fence. A new approach is needed.

A return policy of free immigration, with exceptions to exclude criminals and those with deadly communicable diseases, would reap the largest economic gains, but is extremely difficult in the current political climate.³ A majority of Americans believe that immigrants collect welfare benefits, do not pay taxes, and bring down wages. While some such abuses exist, on average immigrants use fewer welfare services than natives with similar characteristics.⁴ Several studies show that immigration is a net gain for the U.S. economy or neutral at worst,⁵ but perceptions of immigrant welfare abuse and drags on economic growth persist.

An immigration tariff to replace the current system of quotas, restrictions, and regulations would visibly redistribute some gains from immigrants to natives,⁶ thus decreasing the perceived net costs of the welfare state by helping to cover the cost of immigration administration, and increasing government revenue.

The current immigration system is a complex bureaucracy that sets quotas, fees, and arbitrary restrictions that prevent most immigrants from attempting legal immigration. Wait times for green cards are sometimes longer than a century.⁷ Replacing that system with a tariff would

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provide a legal avenue to immigrate, deregulate much of the labor market, and end most of the immigration black market.

A new tariff on immigration also would increase economic growth by allowing American employers to hire the workers they demand. Most immigrants want to work legally and openly without the fear of deportation, and many employers want to hire them. The government should let them pay for the privilege instead of fighting a never ending war against economics. An immigration tariff would liberalize international labor markets, shut down most of the black market for human smuggling, and bring transparency to the immigration process.

How an Immigration Tariff Would Work. An immigration tariff would remove all numerical quotas and restrictions—except for restrictions on criminals, suspected terrorists, and those with serious transmittable diseases—and instead levy a tariff on all immigrants.

The present American immigration system is riddled with strict numerical quotas for most categories of immigrants. For example, there is no quota for the immediate relatives⁸ of American citizens, but there are quotas for the more distant relatives of citizens. Family-based green cards for non-immediate relatives are essentially capped at 226,000 annually. Employment-based green cards are even more restricted, at 140,000 a year. Excluding immediate relatives, only 7 percent of all green cards issued can go to immigrants from any one country. There is also a diversity visa, known as the green card lottery, which awards 50,000 green cards to lucky individuals.⁹

The various quotas and restrictions under the present system result in an enormous visa backlog for immigrants from some countries, and thus incentivize unauthorized immigration. There should be no restrictions on who could pay the tariff. Firms, families, human rights agencies, religious organizations, or communities could pay the tariff for the individual immigrants.

An immigration tariff would be the next best thing to free immigration. By removing numerical quotas, arbitrary rules, and regulations, the government would set the price of entry and allow the market to determine the quantity of immigrants by responding to changes in supply and demand. If demand for immigrant workers diminishes, fewer people would pay the tariff. If demand increases, more would pay. Quotas do not adjust to meet rising demand, so they compound the economic costs of immigration restrictions.

Paying for legal permission to work and live in the U.S. is not a new concept.¹⁰ Immigrants already pay to work and live here. Legal immigrants pay lawyer fees, administrative fees, and for travel between their home towns and the nearest American consulate. Unauthorized immigrants often pay human smugglers, bribes to government officials, and criminals for forged identity documents. The government can eliminate many of those payments, especially the illegal ones, and redirect tariff revenue toward itself. The question is not whether immigrants *should* pay to immigrate, but *whom* they should pay to immigrate.

While tariffs will prevent the movement of some immigrants to higher paying jobs in wealthier countries, they still would allow for greater movement, flexibility, and perhaps a pathway to greater liberalization of immigration in the future than the present system. Adam Smith endorsed

an export tariff on wool not because one of the earliest proponents of free trade thought a tariff was a good idea, but because he believed that it would be an improvement over the United Kingdom's outright ban on the export of wool.¹¹ By the same token, an immigration tariff would be a vast improvement over the current quotas and bans.

The most significant challenge would be in setting the tariff schedule, which would be difficult and subject to rent-seeking. So how to proceed? A good place to start is the immigrant fiscal net present value (NPV). An immigrant's fiscal NPV is mainly determined by his age of arrival and education.¹² The more highly educated the immigrant, the more tax money he pays over his working life and the less likely he is to receive welfare. The younger the immigrant, the longer he will work and pay taxes before retiring. Fiscal NPV is most positive for more highly educated immigrants who come in their early 20s.¹³ Based on the age distribution of immigrants arriving in 1997, immigrants with less than a high school education have a NPV of -\$13,000, those with a high school education +\$51,000, and those with more than a high school education +\$198,000.¹⁴

Tariff rates would be adjusted by age and education to give every legal immigrant a positive fiscal NPV. To make the fiscal NPV even more positive, more bars to immigrant use of the welfare state could be enacted. The tariff rate could be adjusted so that immigrants with lower estimated fiscal NPVs would pay a higher tariff and those with higher estimated NPVs would pay a lower tariff.

Mock Tariff Schedule

Education	Age	Rate
Less Than HS	Less than 18	\$7,500
	18-21	\$15,000
	22-27	\$27,500
	28-35	\$50,000
	36+	\$75,000
HS Equivalent	Less than 18	NA
	18-25	\$10,000
	26-35	\$20,000
	36-45	\$30,000
	46+	\$50,000
More than HS	Less than 18	NA
	18-30	\$5,000
	31-40	\$10,000
	41-50	\$15,000
	51+	\$20,000

Tariff rates would have to be very high to make unauthorized immigration a viable alternative because the wage premium for legal employment is so significant. For example, a 35-year-old male urban worker born and educated for nine years in the U.S. can expect to make, on average, over five times more than a male of the same age with the same education in an impoverished foreign country.¹⁵ Just changing the worker's location increases his wage fivefold. The difference in wages between similar workers abroad and in the U.S. is so great and the increase in wages so immediate that many foreigners would pay for the opportunity to legally work in the U.S.

If green cards were available for a price, very few immigrants would accept lower wages in the black market over legal work. Longitudinal studies of formerly unauthorized immigrants after they were legalized by the 1986 Immigrant Reform and

Control Act found that the average amnestied male immigrant experienced a 13.2 percent wage increase within four to five years, with an estimated 6 to 8.4 percentage point increase due to

their legalization.¹⁶ Immigrants would be willing to pay a tariff because legal working status increases their wages.

Long wait times are another problem which an immigration tariff would address. Unlike a quota that may require an immigrant to wait decades or cannot be overcome except through breaking the immigration laws, tariffs can be overcome through borrowing, pooling familial or community resources, and saving.

Immigrants and businesses would adjust very quickly to a tariff. The decision to immigrate would be simplified. The rational immigrant would add the tariff to the other costs of migrating. If those costs are less than the estimated compensation gains from migrating, then he will immigrate. Immigrants would react to a tariff as just another cost, unlike a quota or regulation that may ban them permanently or make them wait for decades. Even at a very high tariff rate, it would be rational for almost all immigrants to pay a tariff to work in the U.S. legally.

Fiscal Benefits of a Tariff. Voters worry about immigrant abuse of the welfare state. The popular perception is that immigrants collect welfare and do not pay any taxes, leaving taxpayers footing the bill. The myth of systematic immigrant welfare abuse has been thoroughly debunked,¹⁷ but that has not diminished public opposition to immigration. Another popular misperception is that immigrants “take” jobs from Americans. Most people who make that argument rely on the lump of labor fallacy yet it persists.

Immigrants and native-born American workers have different skills, experiences, and language ability, so most Americans do not in fact face wage competition with most immigrants. The two categories of workers may even be complementary, meaning that immigrants may actually increase the income and wages of American workers and vice versa.¹⁸ Workers with different skills divide up the labor efficiently, so each can enjoy comparative advantages in production. Redistributing some gains from immigrants to natives through a tariff will help reduce end some of these misconceptions and therefore reduce political opposition to immigration.¹⁹

Revenue raised by this tariff could be substantial. Supposing that the average tariff paid by each immigrant is \$10,000 and the total number of immigrants is 5 million annually, the government would raise \$50 billion. This would allow for cutting taxes elsewhere, further helping the economy by reducing American businesses’ and individual taxpayers’ tax burden.

An immigration tariff is the closest thing to a market solution short of free immigration. Unlike the current quota system, it would allow the quantity of immigrants to fluctuate based on supply and demand.

The federal government would save money by slashing and reorganizing the immigration enforcement agencies. The fiscal year 2012 budget requests for the Customs and Border Protection, Immigration and Customs Enforcement, and Citizenship and Immigration Services will support 93,533 full time employees to the tune of \$20.6 billion.²⁰ Many of these employees are involved in enforcing arcane rules regulating the wages of tomato pickers, the language of work contracts, and guaranteeing work permit applications are properly folded²¹—all jobs that would be rendered unnecessary with an immigration tariff.

Instead, employees in the immigration agencies would collect tariffs, confirm criminal background checks, and screen immigrants for infectious diseases—much like their predecessors did at Ellis Island. Immigration enforcement officers would deal with a much smaller pool of unauthorized immigrants, many of whom would probably be ineligible for the tariff because they are criminals, suspected terrorists, or carry contagious diseases. Instead of apprehending peaceful people and separating them from their families and employers, immigration enforcement officers would apprehend offenders who actually violated the rights of others.

Removing many bureaucrats and focusing the remainder on simple tasks will remove corruption and lower costs. More importantly, growth-killing immigration regulation would diminish. Increased economic growth from more immigration would also increase tax revenues, all else remaining equal.²² Immigration tariffs would still impose costs, but they would be far smaller than under the current system.

An immigration tariff would increase U.S. and global GDP. Estimated benefits of unrestricted worldwide immigration range between 50 percent and 150 percent of world GDP²³—between \$29 trillion and \$87 trillion. These numbers are so large because immigration restrictions trap hundreds of millions of people in unproductive economies where their labor and skills are wasted.²⁴ If a large fraction of them were allowed to immigrate to countries with well functioning market economies and little political corruption, the global economic gains could be enormous.²⁵

Tariffs Work Better than Auctions. The idea of charging immigrants for a green card or work visa is at least 30 years old,²⁶ but many of those proposed systems are auctions of a limited number of green cards.²⁷ There are at least three problems with auctions.

First, an auction is less economically efficient than a tariff because the quantity of green cards issued would not change based on demand. Our immigration laws cause so much economic damage not because green cards are misallocated, but because they restrict the quantity of immigrants. There simply are not enough green cards. Auctions would shift the allocation of green cards to more highly valued uses, but that would only solve a relatively minor problem, compared to the huge deadweight loss caused by current quotas.

Second, the federal government has market power in issuing green cards. That means that it can change the price through any change in the quantity of green cards issued. Limiting the government's role to setting the price of green cards and allowing quantities to fluctuate would make for a much more market-friendly and flexible system. Allowing the quantity of immigrants supplied to shift according to market demand, with a tariff levied, will produce much less deadweight loss than an auction of a capped amount of green cards.

Third, an auction system will not diminish unauthorized immigration. It will not drive unauthorized immigrants into the legal market because the quantity would still be highly restricted.

Ability to Pay. A common criticism of an immigration tariff is that the poor people who would most benefit from immigrating could not afford to pay. Most unauthorized immigrants to the

U.S. are quite poor by American standards, but the notion that they could not pay a tariff is simply wrong. Unauthorized immigrants already pay enormous amounts of money for human smugglers to bring them into the U.S. with the risk of slavery, death, or deportation. Price data are scarce because human smuggling is illegal but the little data we have reveal a massive black market.

Costs vary widely based on the mode of transport, distance travelled, the number and characteristics of those being moved, price discrimination, and local conditions like the cost of avoiding detection by immigration authorities.²⁸ Unauthorized Mexican immigrants usually pay \$4,000 to cross the border on foot or \$9,000 by boat²⁹ and there are an estimated 6.6 million of them living in the U.S. as of 2010.³⁰ The smuggling fee for unauthorized Central American immigrants is currently between \$7,000 and \$10,000.³¹ In 2010, there were an estimated 1.5 million unauthorized immigrants from El Salvador, Guatemala, and Honduras residing in the U.S.³² The smuggling fee for an unauthorized Chinese immigrant is about \$75,000³³ and there about 130,000³⁴ unauthorized Chinese immigrants in the U.S. as of 2010. The most recently compiled averages in 2005 show that Asian unauthorized immigrants pay \$26,041 to come to America, Europeans pay \$6,389, and Africans pay \$2,200.³⁵

Unauthorized smuggled migrants from Central and South America pay a lower price than Asians because the distance is shorter, but the chance of detection is very high for Hispanic immigrants. Many smuggled Chinese are brought directly to American port cities like San Francisco or New York, but large numbers are also dropped off in Mexico and guided across the southern border.³⁶ The smuggled migrants do not have a green card, work permit, or other legal work authorization waiting for them in the U.S. when they arrive, but they still pay enormous sums of money.

The method of payment varies greatly. Many smuggled people pay up front. Others pool village or family resources to cover the smuggler's fees.³⁷ Still many more pay after they arrive in the U.S., either by working for the smugglers, paying through installments, or by being held hostage until family members pay a ransom.³⁸ Still others pay up front but are held hostage anyway by unscrupulous smugglers who want even more money. Since human smuggling is a black market, it pays to be dishonest because it hurts the reputation of the industry as a whole rather than that of just the individual smuggler. Smugglers who have "brand names"—like "Sammy," a relatively honest smuggler who helps Somali immigrants get to Minneapolis³⁹—tend to behave better. The uncertainty, violence, and slavery endemic to the human smuggling industry would vanish under an immigration tariff system.

With little legal recourse and unable to change jobs because of their immigration status, many unauthorized immigrants are vulnerable to abuse by both smugglers and unscrupulous employers, yet they continue to come to the U.S. They deem the dangers to be less costly than the benefits. If the benefits were greater and the dangers lesser—as they would be under a tariff—they would be willing to pay a higher price.

Immigration flows are already responsive to changes in demand. A tariff would make them more so. Net Mexican immigration to the U.S. was virtually zero in 2011⁴⁰ because of the sluggish economy.⁴¹

It is important to note that many enforcement actions against unauthorized immigration are often carried out against the same individuals.⁴² Immigrants who repeatedly try to enter the country despite increased immigration enforcement would be especially willing to pay for legal entry.

Duration of Residence	Percentage
15 Years or More	35%
10–14 Years	28%
5–9 Years	22%
Less than 5 Years	15%

To pay a tariff, migrants could borrow money from banks or other lending institutions (either in the U.S. or back in their home countries), tap into savings, borrow from family members, pool village resources, or do any combination of these. Remittances could also pay the future tariff rates for future immigrants in countries with large rates of emigration. Remittances account for nearly one-third of national income in Tajikistan and Laos, 20 percent in Honduras and El Salvador, and nearly 12 percent in the Philippines.⁴³ Since the returns of legal work in the U.S. are greater than working in the black market, a moderately priced tariff could end up increasing migrants' incomes.

Indigents do not immigrate. Mexican immigrants, who constitute a majority of all recent immigrants to the United States, are more educated and skilled than other individuals of similar socioeconomic backgrounds back in Mexico.⁴⁴ Based on their skills and education, they could borrow, save, or pool community resources to pay a tariff. People with skills and ambition make the trek to America and they will always find a way to do so. An immigration tariff would remove the uncertainty, danger, and criminality of human smuggling. Undocumented immigrants are not so poor that they cannot pull together the money to pay a tariff, assuming the benefits are also great enough.

Conclusion. The immigration debate presents several challenges and solutions to other policy issues in the United States. Massive deficits and escalating debts will put pressure for adoption of new revenue streams that do not restrict economic growth. An immigration tariff would provide new revenue and increase economic growth by removing the immigration quotas and restrictions that inhibit business creation and legal worker flows.

Immigrants assimilate, become American over time and contribute to the nation's economy, but a majority of Americans see immigrants as unjustly gaining while taxpayers are stuck with the burden. An immigration tariff would help correct that perception rapidly by redistributing some of the gains from immigrants to native-born citizens.

Immigration tariffs are also not without precedent in American history. A head tax of \$0.50 was imposed on immigrants in 1882. It was raised to \$4.00 in 1907, and then to \$8.00 in 1917.⁴⁵ An immigration tariff might seem like a novel idea, but for more than a generation our ancestors used something very similar to it. It can be revived and expanded.

Immigration is an important policy priority in the 21st century. The costs of immigrating are falling as ubiquitous information technologies and affordable travel diminish differences between people, while the benefits to immigrating remain enormous. Meanwhile, our immigration laws are full of quotas, restrictions, and arbitrary bans on immigration that are more suited to the age of mercantilism or protectionism than the age of globalization. An immigration

tariff is an admittedly imperfect solution to these problems but one that could satisfy many immigration critics, appease immigration proponents, and convince American voters and politicians that immigrants really do benefit the United States.

Unauthorized immigrants risk slavery, death, and their life's savings by paying coyotes and human smugglers to enter the U.S. They sometimes pay tens of thousands of dollars to be smuggled into the U.S. For legal work opportunities, security, and avoiding the dangers of being smuggled, many of them would rather pay the federal government instead of human smugglers. As long as there are opportunities, millions around the world would pay a high tariff to come to the U.S. for work if it were legal.

Notes

¹ American immigration policy shifted from virtually free immigration in 1874 to strict quotas that virtually ended all legal immigration to the U.S. by 1929. Since then immigration restrictions have been eased—the most dramatic reforms were the Immigration Act of 1965 and the Immigration Act of 1990—but they still greatly restrict legal immigration relative to America's traditionally free immigration policy.

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³ Gary S. Becker, *The Challenge of Immigration: A Radical Solution*, London: Institute of Economic Affairs, 2011, p. 25.

⁴ Kristin F. Butcher and Luojia Hu, Use of Means-Tested Transfer Programs by Immigrants, Their Children, and Their Children's Children, in *Finding Jobs: Work and Welfare Reform*, eds. David E. Card and Rebecca M. Blank, New York: Russell Sage Foundation, 2000, p. 466.

⁵ See Sari Pekkala Kerr and William R. Kerr, "Economic Impacts of Immigration: A Survey," National Bureau of Economic Research Working Paper 16736, January 2011.

⁶ This is in addition to the massive transfer to Americans from selling and renting property to immigrants. Americans own virtually all of the land in the United States, so any increase in property prices that immigrant renters or owners pay accrues mostly to Americans. Bryan Caplan, "Why Should We Restrict Immigration?" *The Cato Journal* Vol. 32 No. 1, Winter 2012, p. 9.

⁷ Philippe Legrain, "Let Them In," *Forbes*, June 28, 2010, <http://www.forbes.com/forbes/2010/0628/special-report-immigration-opening-borders-mexico-let-them-in.html>.

⁸ Opposite sex spouses, minor children, and parents.

⁹ See Ilona Bray, *U.S. Immigration Made Easy*, Berkeley, Calif.: NOLO, January 2011, pp. 124-128.

¹⁰ Zoe Pollock, "Should We Charge for Immigrant Visas?" *The Daily Beast*, August 30, 2011, <http://andrewsullivan.thedailybeast.com/2011/08/should-we-charge-for-immigrant-visas.html>.

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¹³ James P. Smith and Barry Edomnston, eds., *The New Americans: Economic, Demographic, and Fiscal Effects of Immigration*, Washington, D.C.: National Research Council, 1997, p. 353.

¹⁴ *Ibid.*, p. 350.

¹⁵ Michael A. Clemens, Claudio E. Montenegro, and Lant Pritchett, "The Place Premium: Wages Difference for Identical Workers across the U.S. Border," Center for Global Development Working Paper 148, July 2008 (revised December 2008), p. 11.

¹⁶ See Raul Hinojosa-Ojeda, "Raising the Floor for American Workers: The Economic Benefits of Comprehensive Immigration Reform," Immigration Policy Center, January 2010, pp. 7-9.

¹⁷ See transcript of Iain Murray to the Center for Immigration Studies on "Welfare Use by Immigrant Households with Children," April 2011, <http://www.cis.org/PanelTranscripts/Panel-Immigrant-Welfare-Use>.

¹⁸ See Gianmarco I.P. Ottaviano and Giovanni Peri, "Immigration and National Wages: Clarifying the Theory and the Empirics," National Bureau of Economic Research Working Paper 14118, July 2008.

¹⁹ Richard B. Freeman, "People Flows in Globalization," *Journal of Economic Perspectives* Vol. 20 No. 2, Spring 2006, p. 165.

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- ²³ *Ibid.*, pp. 84-89.
- ²⁴ Michael Clemens, Claudio Montenegro, and Lant Pritchett, “The Place Premium: Wage Differences for Identical Workers Across the US Border,” Harvard Kennedy School Faculty Research Working Paper Series RWP09-004, January, 2009.
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