

# Bloomberg GOVERNMENT

Bloomberg Government Study »

## Early Evidence Suggests E-Verify Laws Deter Hiring Of Unauthorized Workers

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## KEY TAKEAWAYS

- » State legislatures have experimented with E-Verify laws by varying how fast they're rolled out and how strictly they're enforced. This study finds that strict penalties probably lead to higher compliance rates among employers.
- » BGOV research suggests that E-Verify mandates, when rolled out to all employers, influence worker behavior. Soon after E-Verify laws were signed in Arizona, Mississippi, Alabama and South Carolina, unauthorized workers in specific industries appeared to drop off employer payrolls. This prompted employers in many cases to fill positions with authorized workers.

An overhaul of U.S. immigration policy may contain a mandate for employers to electronically verify the identity and work eligibility of new hires by using federal databases. This Bloomberg Government Study examines specific industries in six states that require the so-called E-Verify program and finds:

- Strict sanctions appear to prompt employers to adopt E-Verify. State legislatures have experimented with E-Verify laws by varying how fast they're rolled out and how strictly they're enforced. This study finds that strict penalties probably lead to higher compliance rates among employers.
- E-Verify laws appear to influence employee and employer behavior. BGOV research suggests that E-Verify mandates, when rolled out to all employers, influence worker behavior. Soon after E-Verify laws were signed in Arizona, Mississippi, Alabama and South Carolina, unauthorized workers in specific industries appeared to drop off employer payrolls. This prompted employers in many cases to fill positions with authorized workers.

Utah and Tennessee laws exempt the smallest employers from the program. In those states, early evidence from certain industries shows a significant increase in the number of establishments eligible for exempt status.

Table 1 shows industries in which employment suddenly shifted when a state's E-Verify mandate took effect, a tangible sign of the program's impact, because the same industries in most other states didn't shift as much. This list may represent a lower bound of sectors affected by the law.

**Table 1: Industries With Employment Shifts When E-Verify Laws Took Effect**

Industry	Arizona	Utah*	Mississippi	Alabama	South Carolina	Tennessee*
Landscaping services	—	—	—	—	—	X
Private households	—	—	—	—	—	X**
Cut-and-sew apparel manufacturing	X	—	—	—	—	—
Crop production	—	—	X	X	X	—
Animal slaughtering and processing	—	—	X	—	—	—
Commercial bakeries	X	—	—	—	X	—
Taxi and limousine service	X	—	—	—	—	—
Sugar and confectionery manufacturing	—	X**	—	—	—	—
Special food services	—	—	—	—	X	—

\* Exempts small businesses

\*\* Establishments eligible for exempt status significantly increased as E-Verify took effect.

Source: Bloomberg Government analysis of state law, Pew Research, Bureau of Labor Statistics and National Conference of State Legislatures data

## From Voluntary Pilot to Mandate

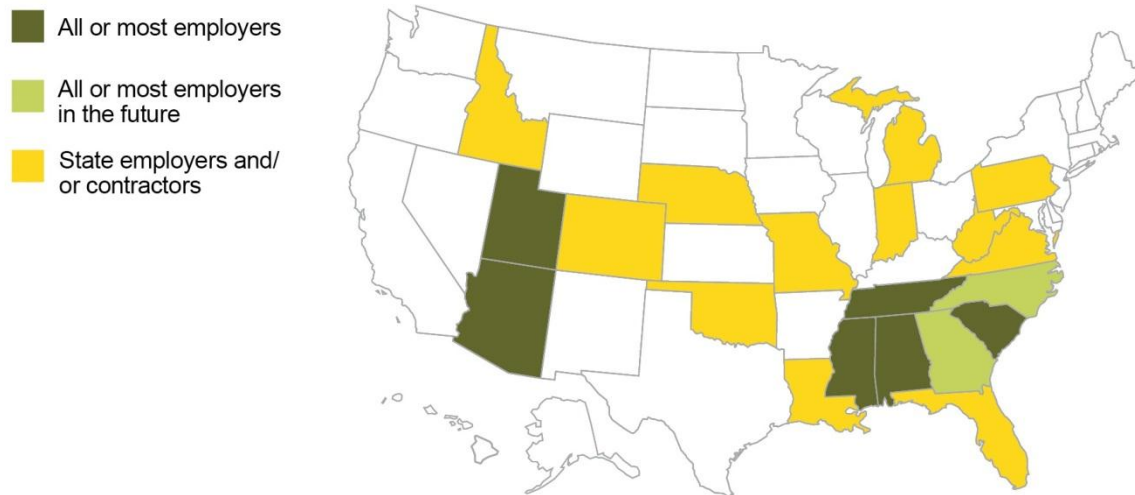
The last U.S. immigration overhaul, the Immigration Reform and Control Act of 1986, made it illegal for employers to knowingly hire or recruit unauthorized workers. Employers had to inspect new hires' work authorization documents — among them passports, driver licenses and Social Security cards — to verify identity and eligibility to work in the U.S. The documents had to reasonably appear genuine and relate to the worker.<sup>1</sup>

Congress passed the Illegal Immigration Reform and Immigrant Responsibility Act in 1996 to strengthen the so-called employer sanctions. The law created three mostly voluntary pilot programs to let employers electronically confirm a new hire's Form I-9 with Social Security Administration and now Department of Homeland Security databases. The basic pilot program, one of the three programs, launched in 1997 and is the only one still in operation. It's now known as E-Verify.<sup>2</sup> The employment verification system correctly classified the work eligibility of 96 percent of new hires, according to a 2009 review of program data.<sup>3</sup>

Congress plans to try to overhaul U.S. immigration law again.<sup>4</sup> A bipartisan group of senators in January unveiled a framework for a comprehensive overhaul, including a section on employment verification.<sup>5</sup> The White House and Republicans in Congress support a nationwide E-Verify standard.<sup>6,7</sup>

Arizona was the first state to require employer participation in E-Verify. Governor Janet Napolitano, now Secretary of Homeland Security, signed into law the Legal Arizona Workers Act, or LAWA, effective Jan. 1, 2008.<sup>8</sup> The U.S. Supreme Court later upheld the state law.<sup>9</sup> Figure 1 shows 19 other states that have followed suit, mandating that at least some employers use the program when hiring.

**Figure 1: 20 States Mandate Use of E-Verify**



Sources: National Conference of State Legislatures, LawLogix

Not all near-universal mandates (the states shaded dark green) are the same. State legislatures have experimented with E-Verify laws in two ways. First, mandates are either implemented on a specific date, as in Arizona, or phased in over time, as in Mississippi.<sup>10,11</sup> The phased-in approach is usually based on employer size and gives smaller firms more time to comply with the law. A Bloomberg Government Study found that small businesses bear a mandate's greatest burden because the program's fixed costs are spread over fewer new hires.<sup>12</sup>

Second, mandates vary by the extent to which they compel employers to use E-Verify. Employers in Arizona and Alabama risk losing their business license if they knowingly hire unauthorized workers; the use of E-Verify is a way to establish good faith intentions.<sup>13</sup> Employer participation in the program is highest in these states.<sup>14</sup>

## Employment Effects

An E-Verify mandate is designed to keep unauthorized workers off employer payrolls by deterring them from seeking jobs or, if they're already employed, by pressuring them to leave. A law requiring E-Verify use would primarily affect industries with a high share of unauthorized workers.

Researchers from the Pew Hispanic Center identified industries in which unauthorized workers constitute a disproportionate share of the labor force.<sup>15</sup> This study examines 16 of the 20 industries from Pew's research. It looks for noticeable and unique changes in labor markets in the six states where E-Verify has been on the books for a sufficient time to permit a preliminary assessment of the mandate's effect.<sup>16</sup> This study uses time-series data to present employment shifts that stand out across the states.

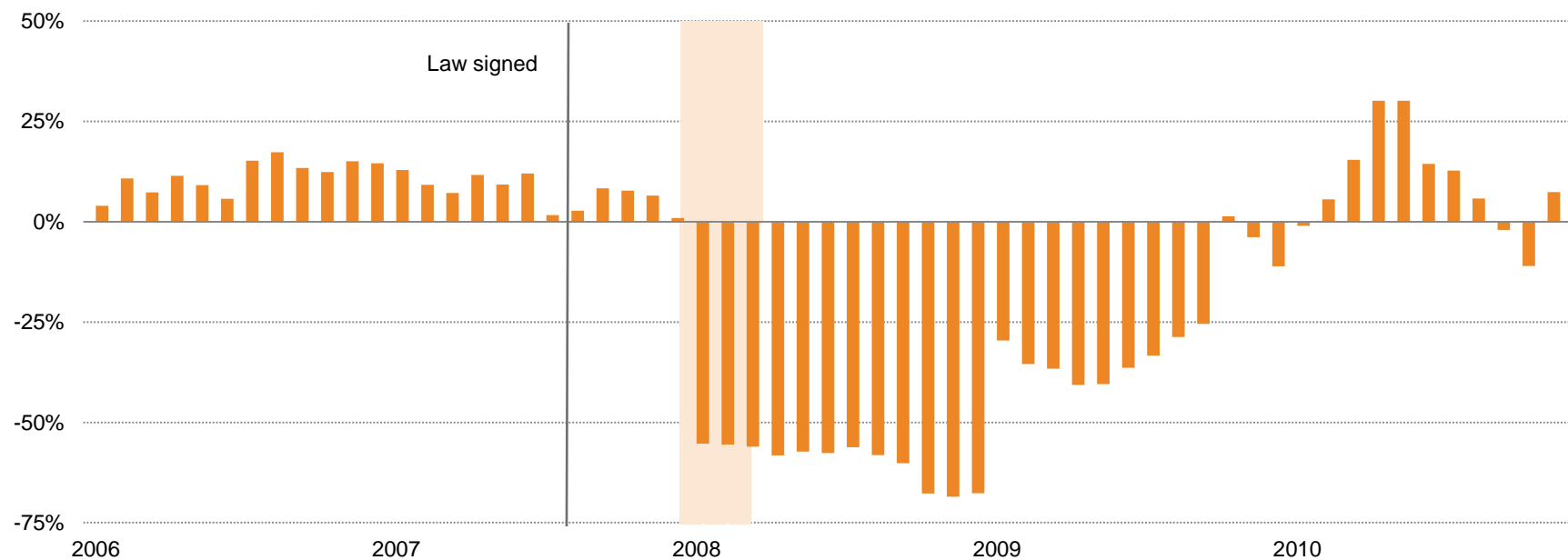
More than 1,600 charts were visually inspected to find these examples. Half the charts, one for each state and industry with a disproportionate share of unauthorized workers, showed the change in monthly employment.<sup>17</sup> The other half of the charts displayed year-over-year changes in employment. Differences within states, and between them, point to employment effects that may be partially attributable to an E-Verify law. For additional methodological discussion, see page 11.

## Arizona

Figure 2 shows in Arizona a significant reduction in cut-and-sew apparel workers, an industry that includes seamstresses and tailors, at the time E-Verify became law on Jan. 1, 2008.<sup>18</sup> Almost all workers that left had been in Maricopa County, where Phoenix is located. The number of apparel manufacturing establishments in that county declined from 20 in the fourth quarter of 2007 to 19 the next quarter. Apparel manufacturing can be moved out of state or overseas and still serve existing markets.<sup>19</sup>

**Figure 2: Apparel Manufacturing Employment Fell in Arizona**

Cut-and-sew apparel manufacturing employment in Arizona, change over previous year



Note: NAICS 3152. The shaded area reflects the period from when the state's mandate went into effect to when enforcement of it began.

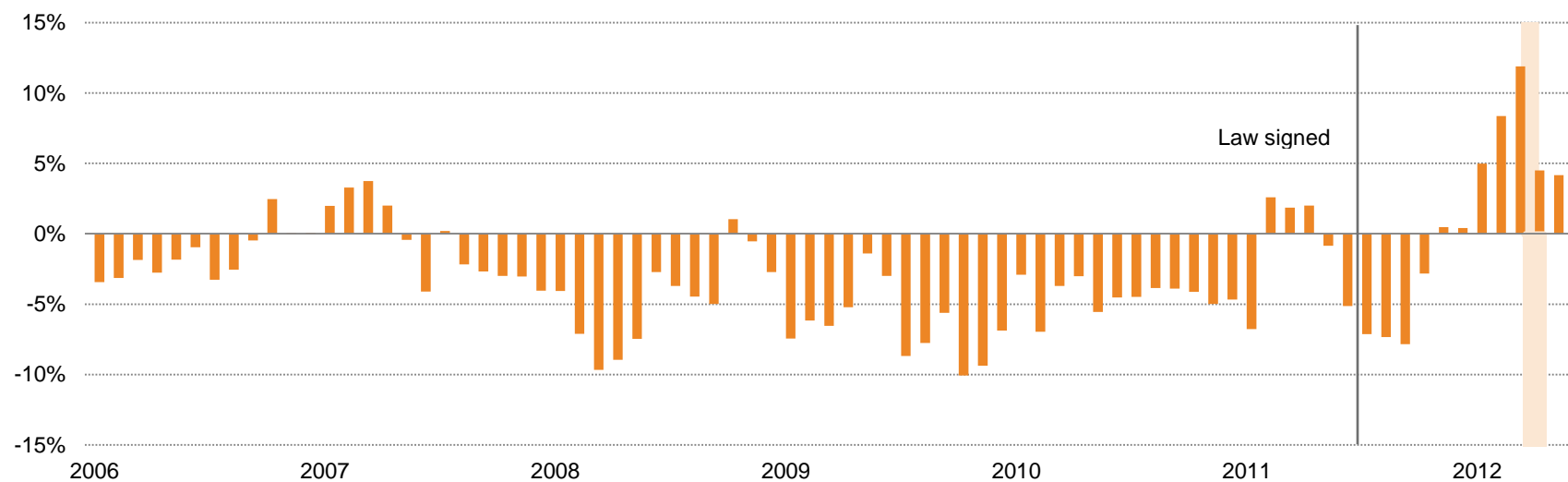
Source: Bloomberg Government analysis of BLS data; Pew Research

## Alabama

Known as H.B. 56, Alabama's sweeping immigration law was signed in June 2011. Among other provisions, it required that employers confirm new hires through E-Verify by April 2012. This government action prompted anecdotal reports of farm workers fleeing Alabama, leaving behind unharvested crops, such as tomatoes and sweet potatoes.<sup>20</sup>

**Figure 3: Crop Production Employment Surged in Alabama**

Crop production employment in Alabama, change over previous year



Note: NAICS 111. 2012 data are preliminary. The shaded area reflects the period when the state's mandate took effect.

Source: Bloomberg Government analysis of BLS data; Pew Research

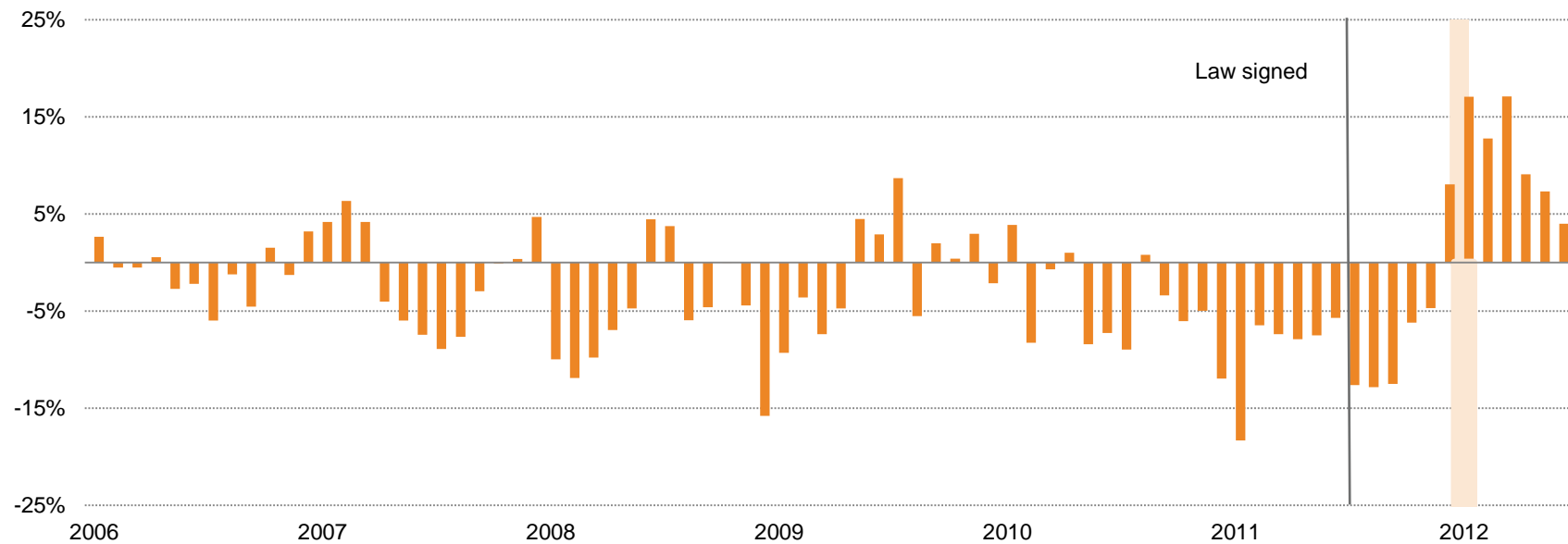
Figure 3 shows that employment trended lower immediately after the law was enacted. Employers then added more crop production workers in the months before H.B. 56 took effect, when compared with the same period the year before. That growth in crop production jobs was among the largest in the nation. This study hypothesizes that authorized hires probably filled the jobs of unauthorized workers who had left the state.<sup>21</sup>

## South Carolina

The number of crop production workers also fell in South Carolina as that state's E-Verify mandate, the South Carolina Illegal Immigration and Reform Act, or SCIIRA, was signed, and then hiring surged as the law took effect in 2012. Farmers say they added workers because their normal labor supply vanished.<sup>22</sup>

**Figure 4: Crop Production Employment Surged in South Carolina**

Crop production employment in South Carolina, change over previous year



Note: NAICS 111. 2012 data are preliminary. The shaded area reflects the period when the state's mandate took effect.

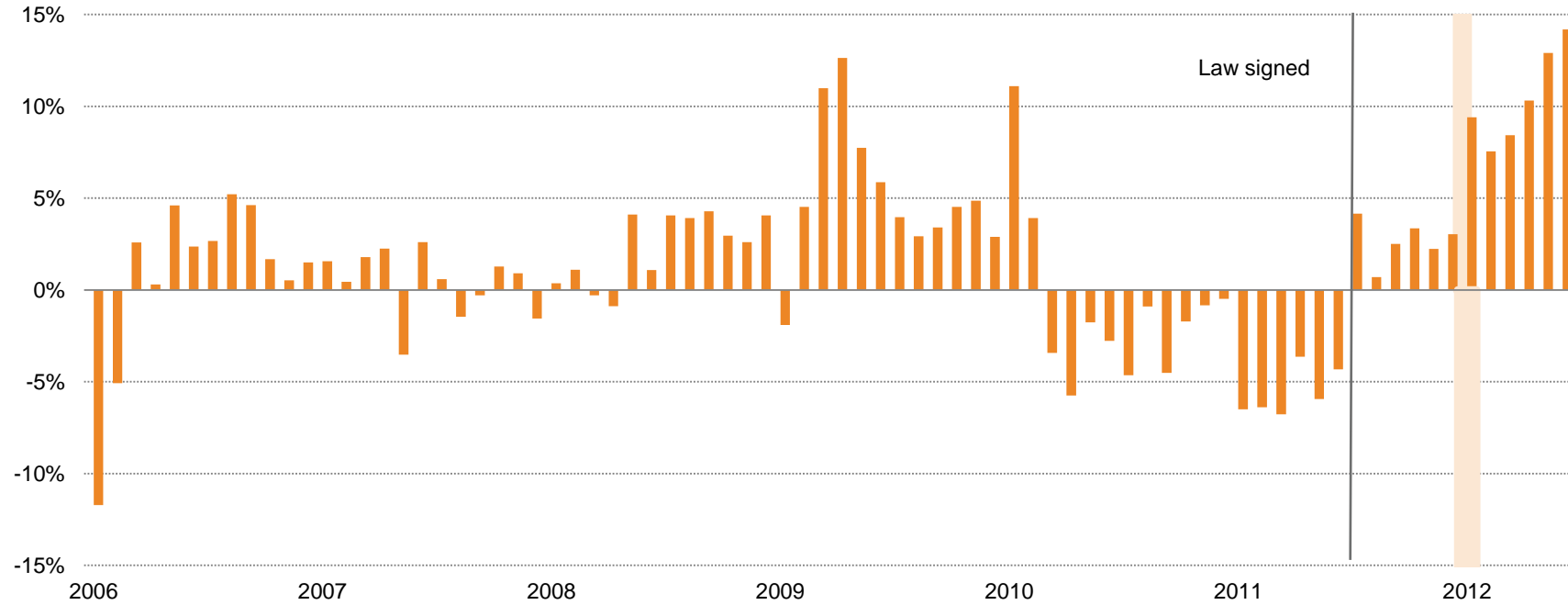
Source: Bloomberg Government analysis of BLS data; Pew Research

Figure 5 shows the state's commercial bakery industry had been losing workers, then gained them as E-Verify took effect. Workers in that industry prepare bread and other dough-based products.



### Figure 5: Commercial Bakery Employment Surged in South Carolina

Commercial bakery employment in South Carolina, change over previous year



Note: NAICS 311812. 2012 data are preliminary. The shaded area reflects the period when the state's mandate took effect.

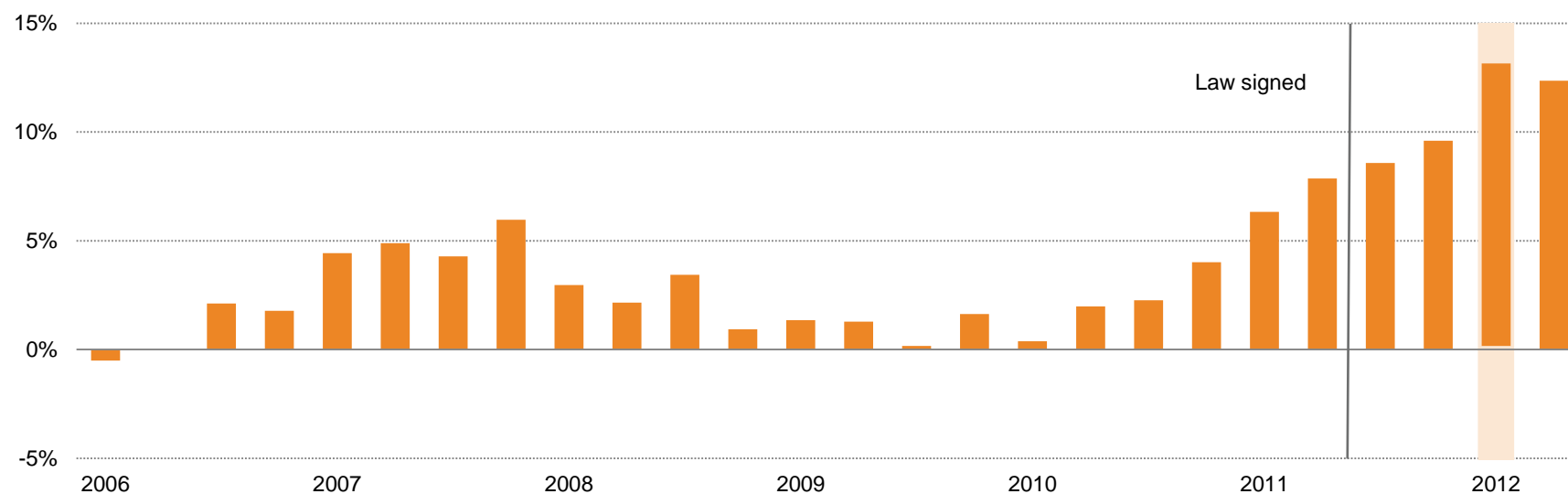
Source: Bloomberg Government analysis of BLS data; Pew Research

## Tennessee

The Tennessee Lawful Employment Act, or TLEA, is different from other laws in that employers with five or fewer employees are exempt from using E-Verify. Figure 6 shows private household establishments — maid, nanny and gardening service providers, for example — increased as the law took effect in 2012. Because those businesses usually employ one or two employees, they are largely exempt from the mandate.

**Figure 6: Private Household Establishments Surged in Tennessee**

Private household establishments in Tennessee, change over previous year



Note: NAICS 8141. 2012 data are preliminary. The shaded area reflects the period when the state's mandate took effect.

Source: Bloomberg Government analysis of BLS data; Pew Research

These sample industry findings mirror other sudden labor market shifts that took place when E-Verify was implemented, as evidenced in this study's initial table. This list may represent a lower bound of sectors affected.

## Methodology

Employers that participate in unemployment insurance programs submit employment data to their state employment security agency as well as to the U.S. Bureau of Labor Statistics. The federal agency aggregates job counts by industry and geography to protect the identity of employers and create the Quarterly Census of Employment and Wages series. QCEW, as it's known, captures 98 percent of U.S. jobs. This report draws on that data.

Sudden shifts in employment levels are the result of changing economic activity, including “establishment openings or closings, and major establishment expansions or contractions.”<sup>23</sup>

This paper examines abrupt shifts in employment across multiple industries that convey a similar narrative: soon after E-Verify laws are adopted, workers drop off employer payrolls, and, in a number of industries, new hires fill those vacant positions. The robustness of this effect reinforces the likelihood that this phenomenon is due to something other than chance.

It's unlikely that employers in these states would add unauthorized, rather than authorized, workers to their payrolls after an E-Verify mandate. Employers in Arizona and Alabama, for example, risk losing their license if they hire unauthorized workers. Those workers may leave the state on their own if employment opportunities, real or perceived, diminish.

## Unauthorized Workers

**Table 2: Industries With High Share of Unauthorized Immigrants, 2008**

NAICS	Industry	Estimated Share of Labor Force Unauthorized to Work	Percent Tradeable
56173	Landscaping services	28%	40%
8141	Private households	23%	0%
3152	Cut-and-sew apparel manufacturing	23%	100%
111	Crop production	20%	100%
8123	Dry cleaning and laundry services	20%	0%
3116	Animal slaughtering and processing	19%	100%
311812	Commercial bakeries	17%	100%
115	Agriculture and forestry support activities	17%	100%
811192	Car washes	17%	0%
23	Construction	14%	0%
4853	Taxi and limousine service	14%	0%
3114	Fruit and vegetable preserving and specialty	13%	100%
7211	Traveler accommodation	12%	0%
3113	Sugar and confectionery product manufacturing	12%	100%

NAICS	Industry	Estimated Share of Labor Force Unauthorized to Work	Percent Tradeable
7223	Special food services	11%	0%
42393	Recyclable material merchant wholesalers	11%	0%
—	All other industries	2%	—

Source: NAICS numbers are from BLS; Industries are from Pew Research; the percent tradeable numbers are from Hathaway (2011), adapted from Spence and Hlatshwayo (2011)

## » About the Analyst



Jason Arvelo is a senior quantitative analyst with Bloomberg Government. He was a managing/senior analyst for Compass Lexecon, where he evaluated the economics of regulatory, legislative and court matters. Arvelo holds a master's degree in labor economics from Cornell University and bachelor's degrees in economics and geography from the University of Florida.

## Endnotes

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<sup>1</sup> Bruno, Andorra, "Electronic Employment Eligibility Verification," May 3, 2012, Congressional Research Service, Report R40446: p. 1.

<sup>2</sup> Bruno, Andorra, "Electronic Employment Eligibility Verification," May 3, 2012, Congressional Research Service, Report R40446: pp. 1-2.

<sup>3</sup> Westat, "Findings of the E-Verify Program Evaluation," Dec. 2009, p. xxxi, [www.uscis.gov/USCIS/E-Verify/E-Verify/Final%20E-Verify%20Report%2012-16-09\\_2.pdf](http://www.uscis.gov/USCIS/E-Verify/E-Verify/Final%20E-Verify%20Report%2012-16-09_2.pdf) (retrieved Jan. 28, 2013).

<sup>4</sup> Greene, Robert, "Maybe This Time? Overhauling Immigration Policy," Jan. 2, 2013, <http://www.bgov.com/media/news/M0H2NDYuNRzsnBuHYH43w> (retrieved Jan. 28, 2013).

<sup>5</sup> Senators Schumer, McCain, Durbin, Graham, Menendez, Rubio, Bennet and Flake, "Bipartisan Framework for Comprehensive Immigration Reform," Jan. 28, 2013, p. 4, [www.bgov.com/media/news/epYBiEjz-vSiHNL2kr1bmq](http://www.bgov.com/media/news/epYBiEjz-vSiHNL2kr1bmq) (retrieved Jan. 28, 2013).

<sup>6</sup> White House, "Building a 21<sup>st</sup> Century Immigration System," May 2011, p. 21, [www.whitehouse.gov/sites/default/files/rss\\_viewer/immigration\\_blueprint.pdf](http://www.whitehouse.gov/sites/default/files/rss_viewer/immigration_blueprint.pdf) (retrieved Jan. 28, 2013).

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<sup>7</sup> See, for example, Rep. Lamar Smith (R-TX), "E-Verify Works; Let's Use It," Jun. 13, 2011, <http://lamarsmith.house.gov/news/documentsingle.aspx?DocumentID=246547> (retrieved Jan. 28, 2013); Rep. Phil Gingrey (R-Georgia), "Immigration," <http://gingrey.house.gov/issues/issue/?IssueID=1594> (retrieved Jan. 28, 2013).

<sup>8</sup> H.B. 2779, "Legal Arizona Workers Act," 2007 First Regular Session, [www.azleg.gov/legtext/48leg/1r/bills/hb2779h.pdf](http://www.azleg.gov/legtext/48leg/1r/bills/hb2779h.pdf) (retrieved Jan. 28, 2013).

<sup>9</sup> Chamber of Commerce of the United States of America v. Whiting, May 26, 2011, p. 2, [www.supremecourt.gov/opinions/10pdf/09-115.pdf](http://www.supremecourt.gov/opinions/10pdf/09-115.pdf) (retrieved Jan. 28, 2013).

<sup>10</sup> H.B. 2779, "Legal Arizona Workers Act," 2007 First Regular Session, [www.azleg.gov/legtext/48leg/1r/bills/hb2779h.pdf](http://www.azleg.gov/legtext/48leg/1r/bills/hb2779h.pdf) (retrieved Jan. 28, 2013).

<sup>11</sup> S.B. 2988, "Mississippi Employment Protection Act," 2008 Regular Session, <http://billstatus.ls.state.ms.us/documents/2008/html/SB/2900-2999/SB2988PS.htm> (retrieved Jan. 28, 2013).

<sup>12</sup> Arvelo, Jason, "Assessing E-Verify Costs For Employers, Taxpayers," Bloomberg Government, January 2011, p. 4, [www.bgov.com/media/news/BkKwqb-zH1Zjicy4tqKnRQ](http://www.bgov.com/media/news/BkKwqb-zH1Zjicy4tqKnRQ) (retrieved Jan. 28, 2013).

<sup>13</sup> H.B. 56, "Beason-Hammon Alabama Taxpayer and Citizen Protection Act," 2011 Regular Session, [www.ago.alabama.gov/Page-Immigration-Act-No-2011-535-Text](http://www.ago.alabama.gov/Page-Immigration-Act-No-2011-535-Text) (retrieved Jan. 28, 2013). H.B. 2779, "Legal Arizona Workers Act," 2007 First Regular Session, [www.azleg.gov/legtext/48leg/1r/bills/hb2779h.pdf](http://www.azleg.gov/legtext/48leg/1r/bills/hb2779h.pdf) (retrieved Jan. 28, 2013).

<sup>14</sup> The U.S. Census Bureau collects data on the number of U.S. firms and establishments. Neither measure corresponds with the Department of Homeland Security's definition of employer, making comparisons of state-level E-Verify uptake imprecise. Still, the data show that about 750 Arizona employers with five or more workers for every 1,000 firms in the state were registered with E-Verify as of Sept. 12, 2012. That same measure was about 600 for Alabama, second-highest uptake in the nation. South Carolina (530), Mississippi (250), Utah (250) and Tennessee (130). These relative rankings are nearly the same if establishment counts are used. Census Bureau, "Statistics of U.S. Businesses," 2010, [www.census.gov/econ/subs](http://www.census.gov/econ/subs) (retrieved Jan. 28, 2013); DHS, "E-Verify Employers and Federal Contractors List," Sept. 12, 2012, [www.uscis.gov/portal/site/uscis/menuitem.eb1d4c2a3e5b9ac89243c6a7543f6d1a/?vgnextoid=0199256ace346310VqnVCM10000082ca60aRCRD&vgnnextchannel=0199256ace346310VqnVCM100000082ca60aRCRD](http://www.uscis.gov/portal/site/uscis/menuitem.eb1d4c2a3e5b9ac89243c6a7543f6d1a/?vgnextoid=0199256ace346310VqnVCM10000082ca60aRCRD&vgnnextchannel=0199256ace346310VqnVCM100000082ca60aRCRD) (retrieved Jan. 28, 2013).

<sup>15</sup> Passel, Jeffrey S. and D'Vera Cohn, "A Portrait of Unauthorized Immigrants in the United States," Apr. 14, 2009, Pew Research Center, Table B4.

<sup>16</sup> The following three industries have been excluded because a NAICS match wasn't found: "not specified manufacturing industries," "services to buildings and dwellings" and "other unauthorized industries." The full-service restaurant industry, NAICS 7221, has also been excluded because the BLS stopped reporting its employment information after 2010.

<sup>17</sup> One chart was made for every state, including D.C., and high share industry. 51\*16=816.

<sup>18</sup> According to the BLS, "[b]etween fourth and first quarter, QCEW incorporates many changes in the basis of reporting." BLS, "Quarterly Census of Employment and Wages: Frequently Asked Questions," [www.bls.gov/cew/cewfaq.htm#Q01](http://www.bls.gov/cew/cewfaq.htm#Q01) (retrieved Jan. 28, 2013). That means a company's industry code could change slightly from December to January. Employment drops were also seen in higher industry levels (NAICS 315 and NAICS 31-33), suggesting that a decline in manufacturing employment took place, even if it wasn't in NAICS 3152 itself.

<sup>19</sup> Hathaway, Ian, "Globalization and the U.S. Economy: Diverging Income and Employment," Bloomberg Government, Aug. 18, 2011, p. 6, [www.bgov.com/media/news/gzkjllDpz6mrljyIWHqij2\\_w](http://www.bgov.com/media/news/gzkjllDpz6mrljyIWHqij2_w) (retrieved Jan. 28, 2013); Spence, Michael and Sandile Hlatshwayo, "The Evolving Structure of the American Economy and the Employment Challenge," March 2011, Council on Foreign Relations, Appendix II, [http://i.cfr.org/content/publications/attachments/CGS\\_WorkingPaper13\\_US\\_Economy.pdf](http://i.cfr.org/content/publications/attachments/CGS_WorkingPaper13_US_Economy.pdf) (retrieved Jan. 28, 2013).

<sup>20</sup> Estes, Diane L., "Will Alabama's Immigration Law Cause Short-term Hiccup or Long-term Heartache?" Oct. 24, 2011, PBS NewsHour, [www.pbs.org/newshour/runtdown/2011/10/will-alabamas-immigration-law-cause-short-term-hiccup-or-long-term-heartache.html](http://www.pbs.org/newshour/runtdown/2011/10/will-alabamas-immigration-law-cause-short-term-hiccup-or-long-term-heartache.html) (retrieved Jan. 28, 2013).

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<sup>21</sup> Newkirk, Margaret and Gigi Douban, "Alabama Immigration Law Has Surprise Result," Sep. 24, 2012, Bloomberg Businessweek, [www.businessweek.com/news/2012-09-24/africans-relocate-to-alabama-to-fill-jobs-after-immigration-law](http://www.businessweek.com/news/2012-09-24/africans-relocate-to-alabama-to-fill-jobs-after-immigration-law) (retrieved Jan. 28, 2013).

<sup>22</sup> Serrano, Alfonso, "Bitter Harvest: U.S. Farmers Blame Billion-Dollar Losses on Immigration Laws," Sept. 21, 2012, Time, <http://business.time.com/2012/09/21/bitter-harvest-u-s-farmers-blame-billion-dollar-losses-on-immigration-laws/> (retrieved Jan. 28, 2013).

<sup>23</sup> BLS, "Quarterly Census of Employment and Wages: Frequently Asked Questions," [www.bls.gov/cew/cewfaq.htm#Q11](http://www.bls.gov/cew/cewfaq.htm#Q11) (retrieved Jan. 28, 2013).