

THE EFFECTS OF IMMIGRATION POLICY ON SMALL BUSINESS CREATION: A
STUDY OF THE EFFECTS OF 287(g) MANDATES

by

DIPESH SHRESTHA

(Under the Direction of Genti Kostandini)

ABSTRACT

This study examines the impact of county-level immigration enforcement of section 287(g) mandates on the number of small businesses in the US. Using the difference-in-differences model, we find that the implementation of 287(g) negatively affected the total number of small businesses. Specifically, small businesses saw a decrease of 1.21 businesses per 1000 county population which is about a 5 percent decrease in the counties where the 287(g) law was implemented, compared to the counties where the law was not implemented. This decrease appeared to be more prominent in businesses with a higher number of employees. Our results are supported by the event study plot, which bolsters the parallel trend assumption and indicates a significant decrease in the number of businesses after the implementation of county-level 287(g) mandates. Our findings shed light on the complex impacts of immigration policies on small businesses, especially those reliant on immigrant labor. This has significant implications for policymakers and government officials involved in immigration and labor market regulations.

INDEX WORDS: 287(g), Immigration laws, Small Businesses, Difference-in-Differences, Event Study Plot, Casual inference

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DEDICATION

I dedicate this thesis to my parents, Raj Kumar Shrestha and Maya Devi Shrestha, and my beloved wife, Srijana Thapa Magar. Their unwavering love, support, and encouragement have been the driving force behind my academic pursuits. Their sacrifices, guidance, and constant inspiration have shaped me into the person I am today. This thesis is a reflection of their influence on my life, and I am forever grateful for their presence and unwavering support.

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CHAPTER 1

INTRODUCTION

Small businesses are the backbone of the US economy. They have a fair share of contributions to the national GDP (Michna et al., 2006). According to a report by the Office of Advocacy, small businesses account for 44% of US economic activity (Kobe & Schwinn, 2018). Small businesses are very important because they provide opportunities for entrepreneurs and create meaningful jobs with generally greater job satisfaction than positions with larger, traditional businesses (Rowden, R. W., 2002). They promote local economies by keeping money close to home and supporting neighborhoods and communities. Moreover, they help to complement large businesses in many ways such as providing outsourcing services, serving as input suppliers, and acting as sales agents for large businesses.

Immigrants play an important role in the US economy both as workers and owners. Many small businesses are highly dependent on immigrant workers and owners. A report from the Migration Policy Institute (MPI) estimated the population of undocumented immigrants to be 11,047,000 in 2019 (MPI, 2019). Over the past two decades, several stronger immigration laws such as E-Verify, 287(g) agreements, and Secure Communities have been passed at the state and/or county level. These new stricter immigration laws have major consequences for small businesses in the US. There are numerous studies citing the importance of the immigrant labor supply for US small businesses. For example, according to the National Agricultural Workers Survey from the US Department of Labor,

about half of the workers in the US agricultural sector are undocumented (Hernandez et al., 2019). Similarly, Bohn, Lofstrom, & Raphael (2014) examined the introduction of newer stricter immigration laws like Arizona's 2007 Legal Arizona Workers ACT (LAWA) and found a notable and statistically significant decrease in the population of undocumented immigrants in Arizona.

The new immigration regulations were implemented aiming at sanctioning undocumented workers at the state or even sub-state level since 2003 which used to be regulated by the Federal government before (Pham & Van, 2010). One of the important pieces of legislation is Section 287(g) of the Immigration and Nationality Act (INA) which was first introduced in 1996. Section 287(g) allows the US Immigration and Customs Enforcement (ICE) deputy director to enter into agreements with state and local authorities, permitting local officers to check the legal status of people who are stopped by authorities (Kostandini, Mykerezi, & Escalante, 2014). The 287(g) program is restrictive in practice (Kuhn, 2022). The Department of Homeland Security (DHS) Office of Inspector General reported the program had 33,381 removals in FY2008 which is approximately 9.5 percent of the national total in that year (Kuhn, 2022). Similarly, Wong (2012) credited the 287(g) program with identifying over 70,000 individuals residing in the US between 2006 and 2012. Research indicates that the state laws in question were generally successful in reducing the number of unauthorized immigrants in states that adopted them, although they may have merely caused a shift of unauthorized immigrants to other states. (e.g., Bohn, Lofstrom, and Raphael 2014; Orrenius and Zavodny 2016; Hoekstra and Orozco-Aleman 2017). This reduction in the number of undocumented immigrants for small businesses has not been examined in the literature.

Between 2007 and 2012, the 287(g) program allowed certain jurisdictions, such as Sheriff's Offices and Police Departments in 13 cities and 49 counties across 20 states, to operate as agents of the United States Immigration and Customs Enforcement (ICE) (Ifft et al., 2022). This enabled them to identify and apprehend undocumented immigrants within their jurisdiction as a regular part of their duties. In 2008, Secure Communities was introduced which targeted undocumented immigrants. Between 2006 and 2013, more than 175,000 immigrants were deported because of the 287(g) program (Flagg, 2017). By the end of January 2013, all jurisdictions in the US had enrolled in the Secure Communities Program (Miles et al., 2014). It gave far less authority to the local agencies to perform specified tasks in place of ICE officers (Capps, Rodríguez, and Chishti 2011). The Secure Communities program involves police officers checking the fingerprints of detainees against the Federal Bureau of Investigation (FBI) database and the Department of Homeland Security Database (DHS) for immigration status and past crimes. But, as this program affects the arrested and jailed immigrants who are directly involved in criminal activities, its potential impacts on labor supply are negligible if any. There are studies with mixed effects of the Secure Communities program on immigrants such as Hines and Peri (2019) find that the deportation measures implemented through Secure Communities did not have any discernible impact on the employment status of low-skilled non-citizen immigrants. We focus our analysis on years before 2013 as Secure Communities was implemented by 2013 and have likely reduced future passage of 287(g) policies (Charlton et al., 2021). As of September 2022, ICE has 64 law enforcement agencies in 19 states under the 287(g) Jail Enforcement model (JEM) as well as 76 law enforcement agencies in 11 states under 287(g) Warrant Service Officer (WSO) agreements (ICE, 2023).

The main purpose of this study is to explore the effects of the implementation of 287 (g) mandates on the number of small businesses. This study used county-level variation in enforcement efforts generated by the timing of the adoption of immigration enforcement programs under section 287(g) of the Immigration National Act (INA), to examine their implications for small businesses. We used the implementation of county level 287(g) immigration enforcement mandates between 2005 and 2012 to measure the effects of a negative shock to the income and, immigrant labor supply on the number of small businesses in the US. The impacts of these laws on small businesses, in general, have yet to be studied. This study focuses on the county level 287(g) agreements as they were responsible for reducing the local labor supply for the jurisdictions with substantial shares of unauthorized workers, and they allow us to focus on local economic impacts (Kostandini et al., 2014; Bohn et al., 2017).

CHAPTER 2

BACKGROUND AND LITERATURE REVIEW

2.1 A brief history of the immigration laws in the US

Before the early 1900s, the United States had an unrestricted immigration policy (Zolberg, 2009). The lack of regulations on undocumented immigration persisted until 1915 (Miller, 1996), which led to a significant influx of immigrants. To address this issue, Congress passed the Immigration Act of 1917, which imposed a literacy test for all immigrants, overriding President Woodrow Wilson's veto in 1916 (Miller, 1996; Powell, 2009). Subsequently, the Quota Act of 1921 and the Immigration Act of 1924 were passed (Miller, 1996). Both Acts limited the immigrants entering the United States through a national origins quota (US Department of State, 2016). These laws were later replaced by the Immigration Act of 1965 (Triadafilopoulos, 2010).

Immigration enforcement began to be a more important topic in US policy in the mid-1990s when the undocumented immigration population was growing exponentially, about 500,000 people per year (Passel, 2002). In response, in 1996, the Clinton administration passed three laws that significantly limited the rights of immigrants and established partnerships between local and federal governments: the Anti-terrorism and Effective Death Penalty Act of 1996 (AEDPA); the Illegal Immigration Reform and Immigrant Responsibility Act of 1996 (IIRIRA); and the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) also imposed restrictions on the ability of immigrants to access social services and public benefits (Juárez et al., 2018). The

same year, Congress enacted section 287(g) of the Immigration National Act (INA) as part of the Illegal Immigration Reform and Immigration Responsibility Act (IIRIRA) which was supposed to aid the federal government in supplying power by permitting specially trained state and local law enforcement to assist in immigration enforcement. The provision under 287(g) was largely neglected until the September 11 terrorist attacks in 2001 brought the issue of immigration policy back into the national spotlight (Coleman, 2007; Lacayo, 2010). Afterward, starting in 2002, states and localities started to enter into agreements under 287(g). Section 287(g) allows the US Immigration and Customs Enforcement (ICE) deputy director to enter into agreements with state and local authorities permitting designated local officers to perform immigration law enforcement functions, provided they receive appropriate training and function under the supervision of ICE officials (Capps et al., 2011). During the timeframe of our study period (until 2012), the 287(g) program operated through three models namely, Jail Enforcement Model (JEM), the task force model, and the hybrid model (Svajlenka, 2018). The JEM, first implemented in 2005, allows certain trained and authorized state and law enforcement officers to perform immigration enforcement duties such as identifying noncitizens, issuing detainers, serving warrants, and preparing documents for removal proceedings for those who are arrested by state or local law enforcement agencies (American Immigration Council (AIC), 2022; ICE, 2023). Under the task force model, officers who were given the authority could question and arrest individuals they suspected of violating federal immigration laws during their normal duties while the hybrid model blended the features of the task force model and the jail enforcement model (American Immigration Council (AIC), 2022). Task force officers could initiate immigration procedures and transfer individuals believed to be eligible for

removal to 287(g) jail officers who would finish the immigration screening and complete the necessary paperwork for ICE (American Immigration Council (AIC), 2022). and Warrant Service Officer (WSO) (ICE, 2023). The latter two models were discontinued following an ICE policy memo in 2012, which stated that other enforcement programs were a more effective way of allocating resources toward prioritized cases (American Immigration Council (AIC), 2022). This is the reason we stopped our analysis in 2012. A total of 70 county and city local law enforcement agencies implemented 287(g) programs between 2002 to 2012; another 142 local law enforcement agencies submitted applications or inquiries to the Department of Homeland Security (DHS) but failed to implement the 287(g) mandates (Pedroza, 2019). 71 of those that did not implement the 287(g) program had the application denied by DHS whereas 52 withdrew their application (Pedroza, 2019). Later on, in 2019, the Warrant Service Officer model (WSO) was introduced which is a less strict model than JEM where WSOs are limited to executing administrative warrants for civil immigration violations to designated noncitizens imprisoned in their Local Enforcement Agency (LEA) facility (Congressional Research Service, 2021). Even though these mandates were signed in 1996, they were implemented by various local jurisdictions at the city, county, and state levels beginning as early as 2005. The main purpose of the partnership with local law enforcement agencies is to target noncitizen criminals (Rosenblum et al., 2011). However, particularly in the early years of 287(g) programs, this was not the case. Police reports in North Carolina counties, for example, suggest that law enforcement in some counties with jail models questioned individuals about immigration status before arrest (Nguyen et al., 2010, 2016).

287(g) mandates reduced the immigrant population both directly via deportation and indirectly by instilling fear among immigrant communities of being targeted for racial abuses or fear of being deported (Amuedo-Dorantes et al., 2012). Kostandini, Mykerezzi, and Escalante (2014) found that county 287(g) mandates implementation decreased the local unauthorized immigrant population.

Besides 287(g), other important immigration enforcement measures at the state level target undocumented immigrants. E-Verify is another important immigration enforcement measure, which requires employers to check the immigration status of all new employees in a national data system of the US (Orrenius and Zavodny, 2015). It is an internet-based system that is operated by US Citizenship and Immigration Services (USCIS) in partnership with the Social Security Administration (SSA) (Feere, 2012). It was first introduced as a voluntary pilot program by the IIRIRA in 1996 and was voluntarily used by businesses in all 50 states in 2003. The primary reason for 287(g) agreements is to reduce the undocumented immigrant population, with deportation, whereas the E-Verify measure intends to reduce undocumented immigrants in the workforce (Cruz et al., 2022). The mandates intend to curb the hiring of undocumented immigrants who are estimated to make up over 5 percent of the US labor force (Passel and Cohn, 2009). Arizona was the first state to introduce the E-Verify program as a mandatory requirement for all employers in 2007 with the enactment of the 2007 Legal Arizona Workers Act (LAWA). The 2007 Legal Arizona Workers Act (LAWA) was one of the strictest state-wide immigration laws, which required all employers to use the federal E-verify system to identify undocumented immigrant employees (Bohn et al., 2014). The relative population of between 93,000 and 112,00 was estimated to have declined because

of the implementation and passage of LAW A (Lofstrom et al., 2011). This law was challenged in Supreme Court but was later upheld in May 2011 (Feere, 2012). After this ruling, other states embraced the program and considered similar mandates (Feere, 2012). Currently, 1,093,292 companies have enrolled in E-Verify and 3,109,680 hiring sites currently use E-Verify (US Department of Homeland Security, 2022).

One additional immigration enforcement program with 287(g) is the Secure Communities program. Even though DHS began the rollout of Secure Communities in 2008, this program was fully implemented in all 3,181 jurisdictions within 50 states, the District of Columbia, and five US Territories by ICE on January 22, 2013 (ICE, 2023). Secure Communities is a universal and automated screening system that utilizes existing criminal background checks for immigrants, who have been arrested for a crime and are in jail, to immediately identify for deportation using all available data systems and Criminal Alien Program (CAP) resources against criminal and other priority aliens while they are in the custody of another law enforcement or correctional agency (ICE, 2023). The introduction of the Secure Communities program in a particular area made many of the functions of the 287(g) program unnecessary (Coon, 2017). The Secure Communities program was temporarily suspended by DHS policy from November 20, 2014, through January 25, 2017. From its inception in 2008 through FY 2014 and since its reactivation on January 25, 2017, through the end of FY 2017, Secure Communities interoperability led to the removal of over 363,400 criminal aliens from the US (ICE, 2023).

2.2 Immigrants in small businesses

Immigrants are playing a substantial role in business creation in the US. They even have a greater propensity to start businesses than their US-born counterparts (Fairlie et al.,

2015). Refugees are found to be more entrepreneurial, as are immigrants without a college degree. Businesses started by immigrant entrepreneurs create millions of jobs and generate billions of dollars in revenue (Fairlie, 2012). According to a report from Partnership for a New American Economy (PNAE), immigrants started 28% of all new businesses in the United States in 2011, creating an estimated 4.7 million jobs and additionally, in 2010, immigrant-owned businesses generated more than \$776 billion in revenue (Fairlie, 2012). Another report by New American Economy in 2019 stated that households led by immigrants earned a total income of \$1.5 trillion and contributed \$405 billion in tax revenue to federal, state, and local governments in 2017 alone. Additionally, businesses owned by immigrants employed nearly 8 million American workers and had a total sales figure of \$1.3 trillion (New American Economy (NAE), 2019). Immigrant entrepreneurs as well as workers are not only providing for themselves and their families, but are helping revitalize neighborhoods, cities, and regions that have seen an economic decline (Kosten, 2018). It is no wonder that local leaders across the country are attempting to figure out how they can attract immigrants to their areas and promote immigrant entrepreneurship that will benefit everyone in the community (Kosten, 2018).

According to the most recent report from American Immigration Council in 2022, 43.8 percent of Fortune 500 companies were founded by immigrants or their children. The findings from the report concluded that over \$7 trillion in revenue was generated by Fortune 500 companies founded by immigrants and their children which is greater than the Gross Domestic Product (GDP) of every country in the world except for the US and China (American Immigration Council, 2022).

Immigrants' role in Main Street businesses is striking. While accounting for 16 percent of the labor force nationally and 18 percent of business owners, immigrants make up 28 percent of Main Street business owners (Kallick, 2015). Immigrants play an even bigger role in certain Main Street businesses. Data from 2013 show that in the US as a whole immigrants make up 61 percent of all gas station owners, 58 percent of dry cleaners owners, 53 percent of grocery store owners, 45 percent of nail salon owners, 43 percent of liquor store owners, 38 percent of restaurant owners, and 32 percent of both jewelry and clothing store owners (Kallick, 2015).

Immigrants are increasingly likely to start a business, while the rate of new-business generation among the native-born is declining: The rate at which immigrants start new businesses grew by more than 50 percent between 1996 and 2011. During the same period, the business formation rate for the native-born declined by 10 percent.

Immigrants start more than 25 percent of all businesses in seven of eight sectors of the economy that the US government expects to grow the fastest over the next decade. More specifically from 2007 to 2011, immigrants founded an outsized share of new businesses in healthcare and social assistance (28.7 percent), professional and business services (25.4 percent), construction (31.8 percent), retail trade (29.1 percent), leisure and hospitality (23.9 percent), educational services (28.7 percent), "other services" (28.2 percent), and transportation and utilities (29.4 percent) (Fairlie, 2012).

2.3 Literature review on the US immigration laws

There is a large body of literature on the effects of immigration laws on labor market outcomes for likely undocumented immigrants, documented immigrants, and citizens as well as their effects on certain aspects of the economy in adopting jurisdictions

(e.g., Pham and Van 2010; Kostandini et al., 2014; Charlton and Kostandini, 2022). However, to the best of our knowledge, there is no study regarding the impact of stricter immigration laws on business creation. Several studies focus on the impacts of immigration laws in various sectors of the US. For example, Pham and Van (2010) conducted a study on the county-level 287(g) program's effects on local labor markets. The authors used a Difference in Differences (DiD) model to investigate the impact of the 287(g) program on labor supply from 2005 to 2008. They found that employment, payroll, and the number of business establishments have an overall negative effect from the restrictive immigration laws (Pham and Van, 2010). Furthermore, they also discovered that industries that historically relied significantly on labor suffer somewhat because of immigration rules (Pham and Van, 2010). Bohn and Santillano (2017) focused on industry sectors with high immigrant concentrations as they further investigated the effects of 287(g) enforcement on private employment. They found that employment in administrative services was predominantly affected by 287(g) labor supply shocks. Moreover, some studies found that stricter immigration laws targeting undocumented immigrants in local areas have affected the locational preferences of immigrants and have pushed undocumented immigrants to jurisdictions that are not subject to such laws (Leerkes et al., 2012; Parrado, 2012; Lofstrom et al., 2011).

Charlton and Kostandini (2020) examined the effect of the county-level implementation of 287(g) immigration enforcement policies on the local US dairy industry. They found that 287(g) policies resulted in decreased production and labor expenditure on dairy farms while they increased labor efficiency. They also concluded that the

technological gains in the dairy industry were unable to fully compensate for the negative shock to production resulting from the reduction in labor supply due to 287(g) agreements.

Cruz et al. (2022) found a decline in the production of labor-intensive crops and an increased production of capital-intensive crops in the states that have enforced strict E-Verify laws whereas the opposite was found in the weak E-Verify states. Similarly, Orrenius et al. (2016) found out that the E-Verify law reduced the number of likely undocumented prime-age immigrants with less education. The authors also found that some new migrants are redirected to other states, but also indicate that some already present migrants choose to leave the country altogether. Luo et al. (2018) study the effects of the 2007 LAWА on agricultural labor in Arizona farms. The study found that LAWА significantly increased the likelihood of farm family laborers choosing an agricultural occupation by 3 to 5.5 percent and on non-Hispanic farms, the impact was an increase of 11 percent. The study also found that after the implementation of the 2007 LAWА, the share of farm workers that are likely undocumented decreased by about 7 percent in Arizona. Similarly, Hoekstra et al. (2017) examined whether Arizona SB 1070 passed in 2010, one of the most restrictive and controversial state immigration laws ever passed, deterred entry into Arizona. The study concluded that the bill's passage reduced the undocumented immigrant flow by 30 to 70 percent.

In addition to economic sectors, Bohn et al. (2014) conducted a study on the relationship between immigration laws and the number of noncitizens Hispanics in Arizona. The authors investigated whether the passage and implementation of the 2007 Legal Arizona Workers Act (LAWА) affected the proportion of Hispanic noncitizens (Bohn et al., 2014). The authors found that the proportion of the Arizona population who

are Hispanic noncitizens declined significantly after the passage of LAWA, although no similar phenomenon was observed in other comparable states. Additionally, rental vacancies increased in Arizona at the time post-LAWA showing that strong state immigrant laws could affect population composition within the state. Similarly, Lu (2016) examined how sub-federal laws affected the volume of H-2A visa applications. H-2A visa is a type of temporary agriculture worker visa under US immigration law. It allows US employers to bring foreign workers to the US to perform agricultural work temporarily when there are not enough US workers who are able, willing, and qualified to do the work. The author discovered that per capita unemployment compensation insurance, per capita the total number of jobs, and the share of the Hispanic male population to the total male population within a county are positively associated with whether a local government chooses to sign immigration laws. The author further concluded that the passage of state-wide immigration laws decreases H-2A visa applications. Similarly, another study by East et al. (2022) found that the Secure Communities policy reduced the employment of likely undocumented immigrants and US-born individuals. The results showed a decrease in both groups' employment and hourly wages, with factors such as increased labor costs and reduced local consumption suggested as possible explanations. The study provides insight into the impact of immigration enforcement policies on the labor market.

Immigration laws affect other outcomes such as school enrollment. For example, Dee, T. and Murphy, M. (2018) conducted a study based on the public school enrollment of Hispanic students and found that the local ICE partnerships enacted before 2012 displaced over 300,000 Hispanic students. Furthermore, they found out that the area of

effects was concentrated among elementary school students and found no corresponding effects on the enrollment of non-Hispanic students.

Similarly, Potochnick et al. (2017) examined the consequence of the 287(g) enforcement on child health-food insecurity. The authors identified the influence of 287(g) on household food insecurity and found that 287(g) induced a 10-percentage point increase in food insecurity risk in Mexican non-citizen households with children who were the most vulnerable group to 287(g).

Other studies have focused on housing. For example, Rugh and Hall (2016) examined the link between the number of immigrant deportations and the housing foreclosure crisis. The authors employ a quasi-experimental approach that leverages variation in county applications for 287(g) immigration enforcement agreements with ICE and data on foreclosure filings from 2005-2012. The authors found that there is a more significant connection between law enforcement and foreclosure rates among Hispanic individuals in counties that have a higher number of immigration detentions and a greater proportion of undocumented residents who own their homes.

CHAPTER 3

METHODOLOGY

3.1 Data

Our main source of data is the US Census Bureau. We used countywide per capita income data from the Bureau of Economic Analysis (BEA) for the income data. County-wise business data and population projections from 2000 to 2012 were retrieved from the US Census Bureau. We used the same classification method as Census Bureau for the number of businesses. The main variable of interest in our analysis is the number of businesses, which is further categorized into 8 categories according to the number of employees. For this study, we considered businesses with less than 500 employees as small businesses and 500 or more employees as large businesses (SBA, 2016; Turner et al., 2017; Bartik et al., 2020).

Information about 287(g) and secure communities were collected from the official website of the US Department of Immigration and Customs Enforcement (ICE) and information on E-Verify was collected from the official website of the US Department of Homeland Security (DHS). The information for each state was then added to the data set with the creation of a dummy variable for each program, more specifically, “postc” represents the counties adopting 287(g), “poste” represents the counties adopting E-Verify, and “posts” represents the counties which are in 287(g) state. Similarly, “pcpi” represents the control variable for per capita personal income. The variables used in this study with their description are listed below in Table 1.

Table 1. Description of the Variables (2000-2012)

Variable	Description	Unit
n1_4	businesses with 1-4 employees	Number of businesses per 1000 county population
n5_9	businesses with 5-9 employees	Number of businesses per 1000 county population
n10_19	businesses with 10-19 employees	Number of businesses per 1000 county population
n20_49	businesses with 20-49 employees	Number of businesses per 1000 county population
n50_99	businesses with 50_99 employees	Number of businesses per 1000 county population
n100_249	businesses with 100-249 employees	Number of businesses per 1000 county population
n250_499	businesses with 250-499 employees	Number of businesses per 1000 county population
n500	businesses with 500 or more employees	Number of businesses per 1000 county population
t_business	total businesses	Number of businesses per 1000 county population
pcpi	per capita personal income	USD in 1000
pop	total population	Individual
postc	equals 1 if the county has 287(g)	0 or 1
poste	equals 1 if the state has E-Verify	0 or 1
posts	equals 1 if the county is in 287(g) state	0 or 1

The summary statistics of all the variables listed in Table 1 are presented in Table 2. Based on Table 2, the businesses with 1-4 employees account for most of the businesses

in the US while the businesses with more than 500 employees make up the least share in the US

Table 2. Summary Statistics of the Variables (2000-2012)

Variable	N	Mean	Standard Deviation
n1_4	40050	13.766	9.069
n5_9	40050	4.721	2.605
n10_19	40050	2.812	1.562
n20_49	40050	1.618	0.922
n50_99	40050	0.496	0.317
n100_249	40050	0.263	0.195
n250_499	40050	0.070	0.072
n500	40050	0.035	0.050
s_business	40050	23.747	13.707
t_business	40050	23.782	13.713
pcpi	40050	30405.35	9135.764
pop	40050	95674.57	307779.4
postc	40050	0.0060	0.0773
poste	40050	0.02801	0.1650
posts	40050	0.0861	0.2805

3.2 Methodology

The main goal of this study is to analyze the impact of 287(g) law enforcement on the number of businesses in the US. The number of businesses in counties may vary due to a number of possibly unknown factors. To analyze the impact of the immigration law on small businesses, this study uses the Difference-in Differences (DiD) model and controls for several factors that may influence the dependent variables such as per capita income,

and population. More specifically, the DiD model is used to analyze changes in the number of businesses before and after the implementation of county-level 287(g) laws and determine if any observed changes are statistically significant between the counties that enacted these agreements (treatment group) and counties that did not (control group).

We identify the effects of county-level immigration policies on businesses using the following empirical model.

$$Y_{ct} = \beta_0 + \beta_1 postc_{ct} + \beta_2 posts_{ct} + \beta_3 poste_{ct} + \beta_4 pcpi_{ct} + \gamma_c + \lambda t + \varepsilon_{ct} \quad (1)$$

Here, Y_{ct} denotes the number of businesses per thousand population in county c and year t . We converted the number of businesses in a county to the number of businesses per 1000 population. This conversion provides a way to compare the density of businesses across different areas regardless of their size.

Similarly, “postc” represents the dummies for the counties adopting 287(g) in year c , “poste” represents the dummies for the counties adopting E-Verify, and posts represent the dummies for the counties in 287(g) state. $pcpi_{ct}$ represents the per capita personal income for county c and year t . In the model, γ_c denotes the county fixed effects, λt denotes the year fixed effects and ε_{ct} the error term. As participation in the 287(g) program is not randomly assigned, there may be systematic unobserved differences between counties that impact both the adoption of the program and its outcomes. This could lead to biased estimates of the program's effect. Thus, county and year-fixed effects are used which are important to eliminate heterogeneity. Including year fixed effect will prevent the situation where there is a difference between the treated counties and the control counties that are

not captured by the control variables. These differences can bias the estimates of the effect of the law implementation on the number of businesses. Thus, year-fixed effect controls for any time-invariant differences across years that may be affecting the outcome of interest. Since we are using balanced panel data, other unobserved effects that may change over time and could impact all the counties equally, such as inflation and recession need to be checked. County fixed effects control the time-invariant characteristics of the county that may be correlated with the number of businesses and views on immigration policy. Controls for state 287(g) adoption, state E-Verify adoption, and per capita personal income eliminate much of the variations within the counties that may influence changing preferences for immigration enforcement policies. Including both year-fixed effects and county-fixed effects in the model ensures that the results of the analysis are not biased by any omitted variables that may be affecting the outcome differently across time and counties. It also allows us to examine the independent effects of the other variables in the model while controlling for these time-invariant differences.

The coefficient of postc (β_1) represents the change in the number of businesses for the category of interest in the regression after the implementation of county level 287(g). Similarly, posts (β_2) represents the change in the number of businesses for the category of interest in the regression after the implementation of state-level 287(g), and poste (β_3) represents the change in the number of businesses for the category of interest in the regression after the implementation of state-level E-Verify. Similarly, (β_4) represents the change in the number of businesses for the category of interest in the regression due to variation in per capita personal income.

One of the important assumptions in DiD model is the “parallel trend assumption”, which states that in the absence of the treatment, the outcome variable would have followed the same trend in both the treatment and control groups (Pardos-Prado, 2020). In other words, the differences in the outcome variables between the treatment and control groups are solely due to the treatment which is 287(g) implementation in our study. After the passage of the 287(g), the changes in the number of businesses can be attributed to the impacts of this law while controlling for state and year fixed effects, and other control variables. In our study, we use pretrend analysis to test the parallel trend analysis.

To validate the parallel trends assumption for the DiD analysis, we conducted a pretrend analysis using event study plots. We examined the trends in the outcome variable for the treatment and control groups over five years before and five years after the adoption of the 287(g) program in 2005. We created a binary treatment variable that equals one for the treatment group (i.e., counties that adopted the 287(g) program) and zero for the control group (i.e., counties that did not adopt the program).

We then used the “eventdd” command in Stata to create an event study plot of the average outcome variable for the treatment and control groups over time (Clarke et.al, 2021). The “eventdd” command allows us to estimate the treatment effect at different time intervals relative to the adoption of the 287(g) program while controlling for pretrends. We set the time variable to be equal to zero in the year of adoption and negative for the pre-period and positive for the post-period.

We visually inspected the event study plot for evidence of parallel trends in the outcome variable between the treatment and control groups before the adoption of the

287(g) program. We also tested for statistically significant differences in the outcome variable between the treatment and control groups in the pre-period using a joint F-test.

If the event study plot shows parallel trends and there are no statistically significant differences between the treatment and control groups in the pre-period, we can conclude that the parallel trends assumption is valid for the DiD analysis.

CHAPTER 4

RESULTS AND DISCUSSION

4.1 Results

First, we present and discuss our results from the DiD model with different result tables for various categories of the number of businesses per 1000 county population based on the total number of employees and then we present and analyze the event study plots to determine if the DiD results are valid.

Table 3 presents the results of the DiD regression analysis for counties that adopted the 287(g) program where the dependent variable is the total number of businesses per 1000 county population for total businesses, total small businesses and total large businesses from 2000 to 2012. The regression results indicate that all parameters for “postc”, “posts”, and “poste” are highly significant and negative, while the parameter for income is highly significant and positively associated with the number of businesses per 1000 county population. The results from the DiD regression indicate on average, counties that implemented the 287(g) law have 1.22 fewer businesses per 1000 county population which is about a 5 percent decrease compared to counties that did not implement the law while in the case of total small businesses and large businesses, the businesses saw a decrease of 1.21 and 0.0078 businesses per 1000 county population which is about 5 percent and 22 percent decrease compared to counties that did not implement the law respectively, holding all other variables constant, supporting our research hypothesis.

Table 3. DiD Regression Results of 287(g) adopting counties including the total number of businesses per 1000 county population for different business sizes from 2000 to 2012

Variables	Total number of business	Total number of small businesses	Total number of large businesses
postc	-1.219*** (0.172)	-1.211*** (-0.17)	-0.00780*** (0.0009)
posts	-0.365*** (0.114)	-0.364*** (-0.11)	-0.00101* (0.000531)
poste	-0.444** (0.188)	-0.441** (-0.19)	-0.00328*** (0.0008)
pcpi	0.139*** (0.0101)	0.139*** (-0.01)	0.000368*** (5.46e ⁻⁰⁵)
<i>Observations</i>	40,050	40,050	40,050
<i>R</i> ²	0.540	0.540	0.810
<i>Adj. R</i> ²	0.501	0.501	0.794

*** p<0.01, ** p<0.05, * p<0.1; Robust standard errors in parentheses; All regressions control for county and state fixed effects

Similarly, Table 4 displays the results of the DiD regression for 287(g) counties, analyzing businesses with different employee sizes per 1000 county population from 2000 to 2012 starting with businesses with up to four employees (n1_4) in column (2) and going to businesses with 500 or more than 500 employees (n500) in column (9). The DiD regression from Table 4 indicates that the parameters linked to "postc", "posts", and "poste" are significant and have a negative relationship with the number of businesses per 1000 county population, as expected. However, the parameters for "posts" and "poste" are insignificant for businesses with 1 to 4 employees and seem to have no effect from the implementation of state 287(g) and E-verify mandates.

Table 4. DiD Regression Results of 287(g) adopting counties including the businesses per 1000 county population from 2000 to 2012

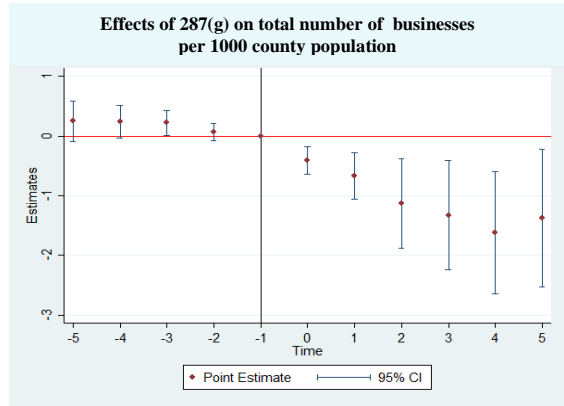
Variables	n1_4	n5_9	n10_19	n20_49	n50_99	n100_249	n250_499	n500
postc	-0.369*** (0.107)	-0.315*** (0.0361)	-0.254*** (0.0221)	-0.173*** (0.0136)	-0.0519*** (0.00514)	-0.0368*** (0.00346)	-0.0117*** (0.00126)	-0.00780*** (0.000928)
posts	-0.0834 (0.0741)	-0.139*** (0.0245)	-0.0616*** (0.0148)	-0.0642*** (0.00821)	-0.0133*** (0.00333)	0.00233 (0.00219)	-0.00441*** (0.00101)	-0.00101* (0.000531)
poste	-0.186 (0.118)	-0.113*** (0.0391)	-0.0617*** (0.0224)	-0.0457*** (0.0125)	-0.0145*** (0.00442)	-0.0178*** (0.00285)	-0.00242* (0.00135)	-0.00328*** (0.000805)
pcpi	0.0717*** (0.00655)	0.0243*** (0.00268)	0.0181*** (0.00165)	0.0159*** (0.00127)	0.00543*** (0.000476)	0.00246*** (0.000265)	0.000895*** (8.69e-05)	0.000368*** (5.46e-05)
Constant	12.08*** (0.179)	4.143*** (0.0699)	2.338*** (0.0430)	1.230*** (0.0319)	0.376*** (0.0119)	0.218*** (0.00666)	0.0533*** (0.00229)	0.0304*** (0.00143)
<i>Observations</i>	40,050	40,050	40,050	40,050	40,050	40,050	40,050	40,050
R^2	0.579	0.503	0.548	0.668	0.694	0.719	0.709	0.810
<i>Adj. R²</i>	0.794	0.794	0.794	0.794	0.794	0.794	0.794	0.794

*** p<0.01, ** p<0.05, * p<0.1; Robust standard errors in parentheses; All regressions control for county and state fixed effects

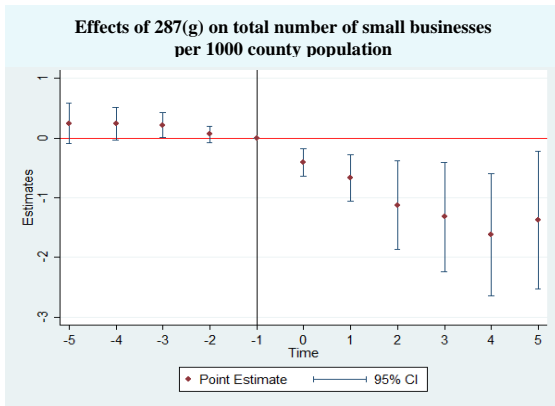
Based on the results from Table 4, the businesses with 1 to 4 employees decreased by 0.37 businesses per 1000 county population which is about a 5 percent decrease compared to the counties where the law was not implemented while the large businesses with employees of more than 500 seem to decrease by 0.0078 businesses per 1000 county population which is about 22 percent decrease compared to the counties where the law was not implemented. Next, we provide the findings of our pre-trend analysis on the impact of 287(g) mandates on the number of businesses per 1000 county population using the event study plots. This analysis helps to verify if the parallel trend assumption holds and if the DiD results are reliable.

Next, we provide the findings of our pre-trend analysis on the impact of 287(g) mandates on the number of businesses per 1000 county population using the event study plots. This analysis employs graphical visualization of the outcome variable over time to assess the validity of the parallel trend assumption and reliability of the Difference-in-Differences (DiD) results.

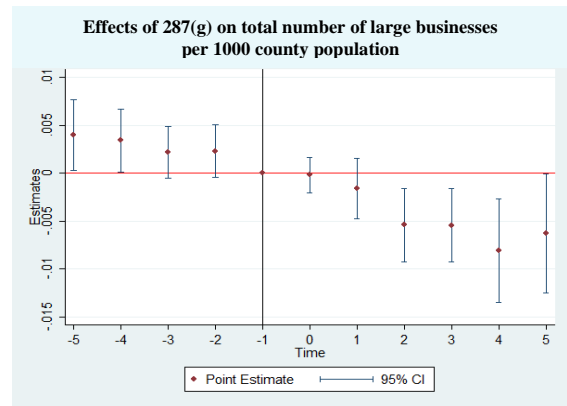
Figure 1 presents the event study plots for different business categories, including "panel a" for total businesses per 1000 county population, "panel b" for total small businesses per 1000 county population, and "panel c" for total large businesses per 1000 county population. All the plots from panels a to c show a significant deviation between the treatment and control group after the implementation of the 287(g) mandates on the total number of businesses per 1000 county population while we could not see any significant deviation between the treatment and control group before the implementation of the county level 287(g).



(a)



(b)



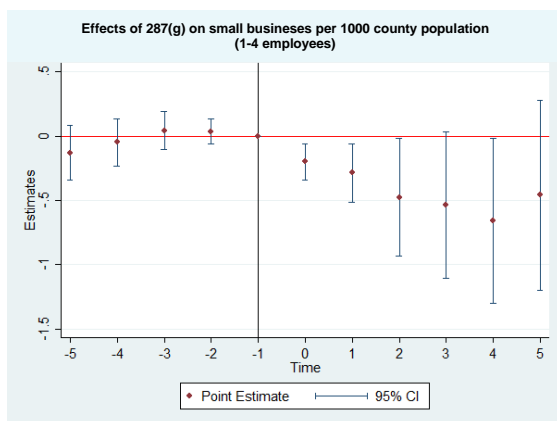
(c)

Figure 1. Event study plot showing the effects of 287(g) on the total number of businesses per 1000 county population (panels a to c). The graph presents the estimated coefficients and 95% confidence intervals for the 5 years pre- and 5 years post-adoption periods, with the base marked by the vertical line.

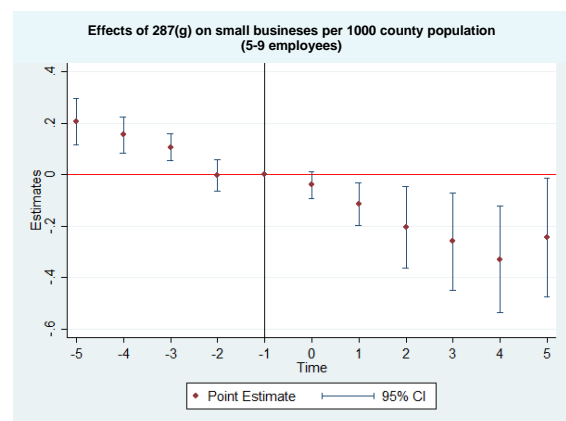
We also conducted the joint significance test of the pretreatment variables for analyzing the effects of 287(g) on the total number of businesses, total number of small businesses and the total number of large businesses per 1000 county population and to check if there were any significant pretrends before the implementation of 287(g) enforcement. The pretreatment variables in the event study plot for the total number

businesses, total small businesses and total large businesses yielded an F-statistic of 1.78, 1.79 and 1.3 with 9 and 3081 degrees of freedom, resulting in a p-value of 0.07, 0.07 and 0.22 which is greater than the conventional level of significance of 0.05. Therefore, we do not have enough evidence to reject the null hypothesis and conclude that the pretrend variables have no significant effect on the outcome variable. Since, from the event study plots, the joint significance tests of the lagged variables are not significantly different than zero. This result supports our parallel trend assumptions and supports the DiD regression.

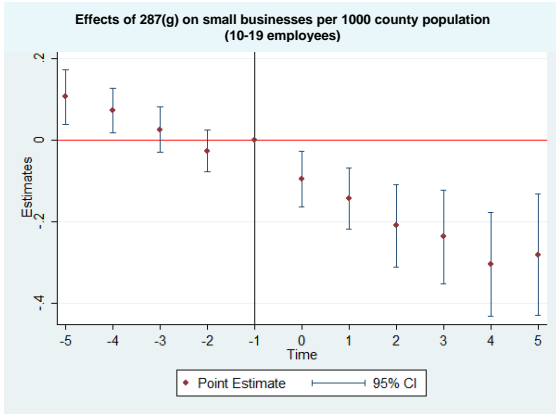
Similarly, the event study plot from Figure 2 shows the significant negative post effect of the 287(g) mandates on the number of businesses per 1000 county population starting from “panel a” representing the event study plots for the number of businesses with 1 to 4 employees going all the way to “panel h” which represents the number of businesses with 500 or more than 500 employees. The event study plots for all the panels show a significant deviation between the treatment and control group after the law enforcement while we could not find a significant deviation between the groups before the law enforcement except for the panels b and c.



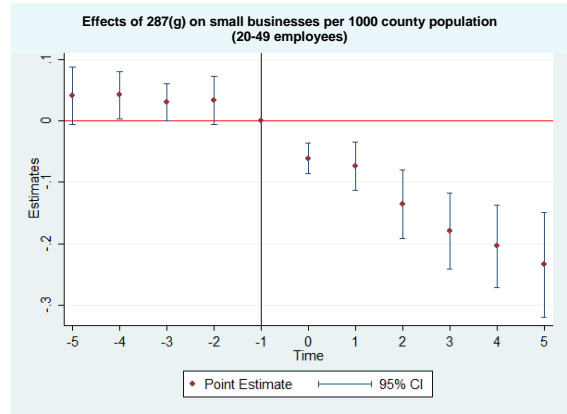
(a)



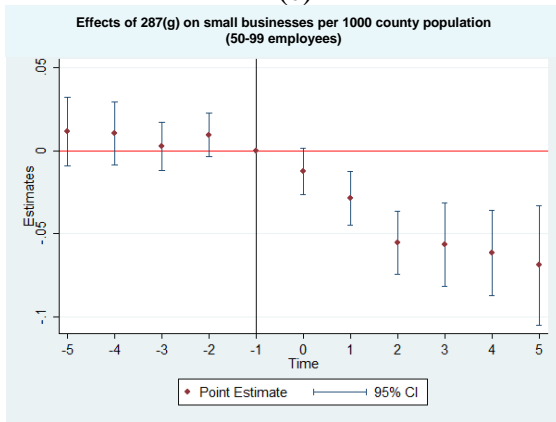
(b)



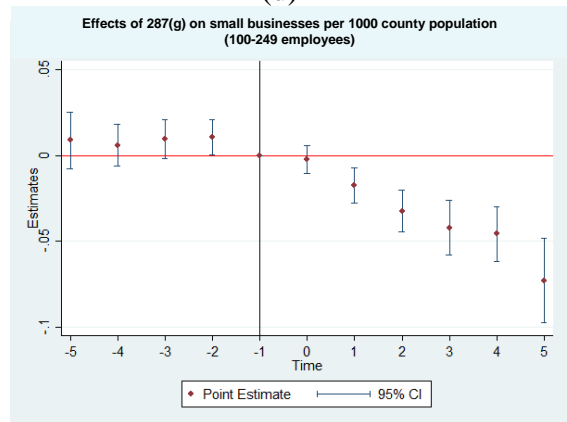
(c)



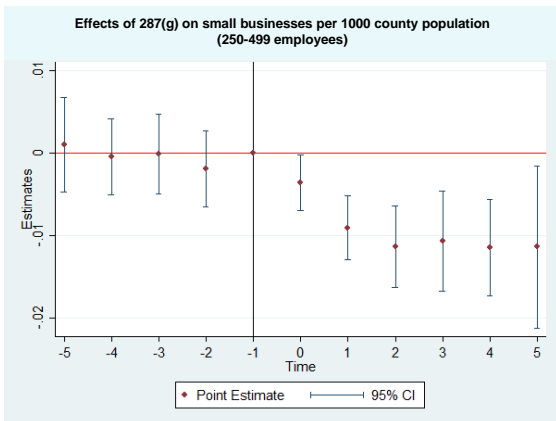
(d)



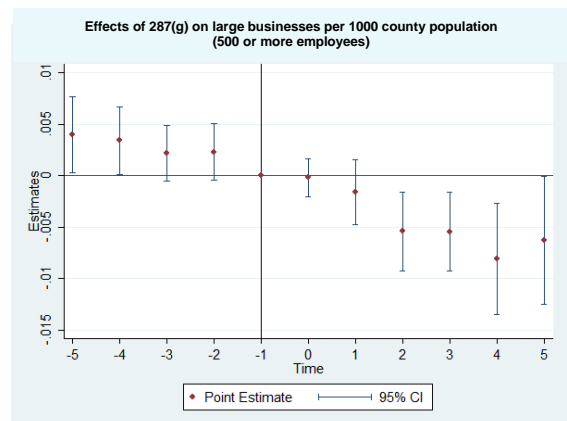
(e)



(f)



(g)



(h)

Figure 2. Event study plot showing the effects of 287(g) on the number of businesses per 1000 county population categorized based on the number of employees (panels a to h). The graph presents the estimated coefficients and 95% confidence intervals for the 5 years pre- and 5 years post-adoption periods, with the base year marked by the vertical line.

In Figure 2, panels a to h, joint significance tests were conducted on pretreatment variables in event study plots. Panel a had an F-statistic of 1.53 with 9 and 3081 degrees of freedom, resulting in a p-value of 0.13, while panel b had an F-statistic of 4.32 with 9 and 3081 degrees of freedom, resulting in a p-value of 0. Panels c to h had F-statistics of 3.24, 1.62, 0.71, 1.54, 1.45 and 1.3047, respectively, all with 9 and 3081 degrees of freedom, and all resulted in p-values of 0.006, 0.1033, 0.6962, 0.1266, 0.1629, and 0.2287. We found that except for panels b (businesses with 5-9 employees) and c (businesses with 10-19 employees), the p-values for almost all the panels are greater than the conventional level of significance of 0.05.

Therefore, we do not have enough evidence to reject the null hypothesis and conclude that the pretreatment variables have no significant effect on the outcome variable which supports our parallel trend assumption.

4.2 Discussion

There could be several possible causes behind this negative impact of 287(g) on small businesses. First, it could be due to the higher compliance costs of businesses. With the increase in strict immigration enforcement, there may have been higher compliance costs for hiring immigrant workers.

Second, the law may have caused a decline in the number of immigrants, resulting in a labor shortage for businesses. This is perhaps not surprising given the dramatic increase in immigration control at the federal level, resulting in far more deportations and lower immigration flows. In fact, some papers (Gill et al., 2009; Lacayo, 2010; Rugh et al., 2016) have documented such discrepancies.

Third, the legal status of the worker might be another cause of this impact. Businesses with workers who are not authorized to work in the country, and the law may have made it more difficult for them to continue working after immigration laws are passed, leading to a decrease in the number of businesses. This is also supported by various literature (Michaud, 2010; Kostandini et al., 2014; Arriaga, 2017; Charlton, 2021)

Finally, the 287(g) program has been criticized for its potential to institutionalize racial profiling and condone questionable police practices. The law might have resulted in racial profiling and discrimination, which may have negatively impacted small businesses that rely on a diverse workforce. (Kocher, 2011; Amuedo-Dorantes et al., 2012; Arriaga, 2017; Becerra et al., 2017).

CHAPTER 5

CONCLUSIONS

Given the increasing enforcement of US immigration policies over the last two decades, we have examined whether county-level immigration enforcement of section 287(g) mandates has affected the number of small businesses in the US. We used the difference-in-differences model to explore the impact of 287(g) programs on the number of businesses. County-level 287(g) immigration enforcement mandates between 2005 and 2012 are used to measure the effects of a negative shock to the immigrant labor supply on the number of small businesses in the US. We also control for income and the population that might vary across the counties.

The major finding of this study is that the implementation of the 287(g) hurt the total number of businesses. According to the results, the group that experienced the greatest impact was small businesses with 1 to 4 employees. These businesses saw a decrease of 0.37 businesses per 1000 county population in the counties where the 287(g) law was implemented, compared to the counties where the law was not implemented. While large businesses with 500 or more employees seem to be less affected. The results from event study plots supported the parallel trend assumption and confirmed that there was a significant decrease in the number of businesses after the implementation of county-level 287(g) mandates and generally counties in control and treatment followed similar trends before law enforcement.

Our research results may benefit policymakers, government officials, and stakeholders involved in immigration policy and labor market regulations. This study also provides insights into the potential economic impacts of immigration policies and helps policymakers make informed decisions about the unintended effects of such policies on businesses and labor markets. Additionally, this study may be of interest to academics and researchers studying the intersection of immigration policy and labor markets.

The impact of 287(g) on small businesses is complex and can vary depending on the specific circumstances of each business. On one hand, small businesses may benefit from increased law enforcement in their local communities while on the other hand, the program may also lead to a reduction in the available labor pool, particularly in industries that rely heavily on immigrant labor, such as agriculture and construction.

It is important to note that these results are based on the number of businesses, and further research is needed to assess the effects of the 287(g) law on other aspects of small businesses, such as their profitability, growth, and competitiveness. An additional limitation of this study is the omission of the Secure Communities program from the control variables, which could have an impact on small business creation, considering its documented negative effects on immigrant employment (East et al., 2022). Future studies could also consider the potential variation in the effects of 287(g) enforcement across different industries or sectors, particularly those that rely heavily on immigrant labor.

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APPENDICES

Appendix A. US Counties with County-Level 287(g) Agreements (2000-2012)

S.N.	County	State	Adoption Year
1	Los Angeles	California	2005
2	Riverside	California	2006
3	Mecklenburg	North Carolina	2006
4	Fairfax	Virginia	2007
5	Shenandoah	Virginia	2007
6	Orange	California	2007
7	San Bernardino	California	2007
8	El Paso	Colorado	2007
9	Cobb	Georgia	2007
10	Alamance	North Carolina	2007
11	Gaston	North Carolina	2007
12	Davidson	Tennessee	2007
13	Rockingham	Virginia	2007
14	Maricopa	Arizona	2007
15	Prince William	Virginia	2007
16	Hillsborough	New Hampshire	2007
17	Pinal	Arizona	2008
18	Pima	Arizona	2008
19	Yavapai	Arizona	2008
20	Bay	Florida	2008
21	Duval	Florida	2008
22	Whitfield	Georgia	2008
23	Hall	Georgia	2008
24	Frederick	Maryland	2008
25	Durham	North Carolina	2008
26	Henderson	North Carolina	2008
27	Wake	North Carolina	2008
28	Butler	Ohio	2008
29	Beaufort	South Carolina	2008
30	Dallas	Texas	2008
31	Harris	Texas	2008
32	Weber	Utah	2008
33	Loudoun	Virginia	2008
34	Benton	Arkansas	2008

S.N.	County	State	Adoption Year
35	Washington	Arkansas	2008
36	Collier	Florida	2008
37	Cabarrus	North Carolina	2008
38	Tulsa	Oklahoma	2008
39	York	South Carolina	2008
40	Gwinnett	Georgia	2009
41	Clark	Nevada	2009
42	Lincoln	Nevada	2009
43	Hudson	New Jersey	2009
44	Denton	Texas	2009
45	Collin	Texas	2009
46	Washington	Utah	2009
47	Etowah	Alabama	2009
48	Fairfield	Connecticut	2010
49	Monmouth	New Jersey	2010
50	Charleston	South Carolina	2010
51	Lexington	South Carolina	2010

Source: US Immigration and Customs Enforcement (ICE)