

# The Economic and Fiscal Effects of the Senate's Comprehensive Immigration Reform Act of 2006

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By SHAWN FREMSTAD\*

A majority of the U.S. House of Representatives recently voted in favor of what the *New York Times* characterized as “a pre-election lineup of narrow enforcement measures packaged to give voters a false impression of resolve.”<sup>1</sup> Meanwhile, House leadership has eschewed meaningful reform of the nation’s broken legal immigration system, seeming to reserve particular disdain for the creation of any path to legal status for undocumented workers. Most Americans, however, support providing new pathways to legal status for such workers.<sup>2</sup>

Expanding pathways to legal status for undocumented immigrants has become a core element of what is known as “comprehensive immigration reform.” One example of a more comprehensive approach, the legislation passed by the Senate earlier this year (S 2611), includes enforcement provisions but would also reduce current family visa backlogs, provide new visas for certain “guest workers,” and allow some currently undocumented people to obtain legal status after paying fines and passing criminal background checks.

This report draws on government data and estimates to analyze the economic and fiscal effects of proposals to provide new pathways to legal status. Estimates produced by the nonpartisan Congressional Budget Office (CBO) show that the provisions of the Senate bill that create new pathways to legal immigration would result in increased federal tax revenues and economic growth. Based on an analysis of the CBO data, a reasonable middle-ground estimate is that the Senate bill would increase the nation’s gross domestic product

## Key Findings

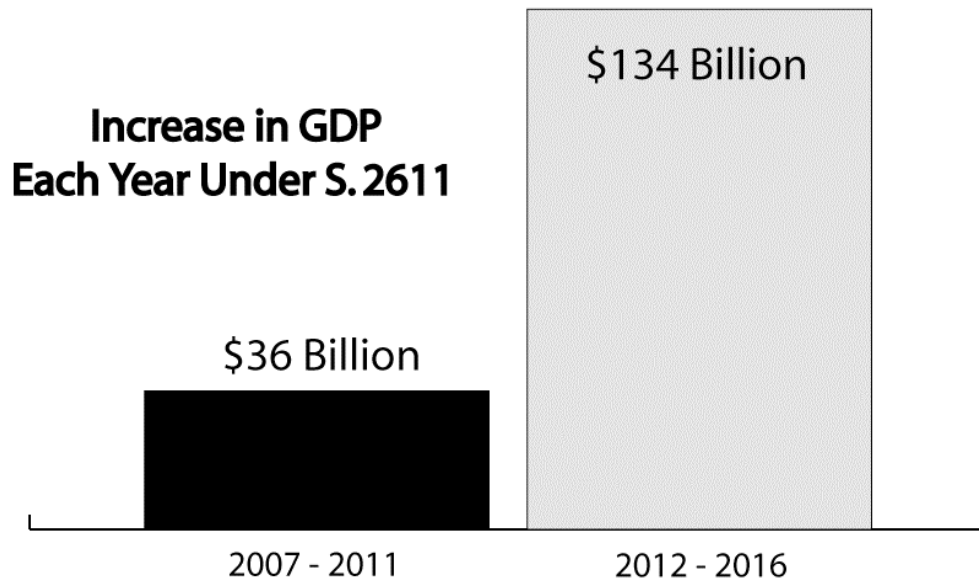
- Comprehensive immigration legislation would boost economic growth and improve the solvency of the Social Security Trust Fund.
- The Senate bill would boost GDP by \$36 billion a year, on average, over 2007-2011, and by \$134 billion a year, on average, over 2012-2016.
- The Senate bill provisions creating pathways to lawful status would boost federal revenues by \$109 billion over the next ten years. The net fiscal benefit of these provisions to the federal government would be \$60 billion over ten years.
- The Senate bill would reduce the federal debt held by the public by an estimated \$30 billion over the next ten years.

\* Shawn Fremstad is a consultant to NILC with expertise in fiscal policy. He was previously deputy director of income security at the Center for Budget and Policy Priorities (CBPP) in Washington, DC. He thanks his colleagues at CBPP and NILC — particularly Leighton Ku of CBPP and Josh Bernstein, Jon Blazer, and Tanya Broder of NILC — for their helpful comments.



## The Economic Benefits of the Senate's Immigration Bill

The Senate's Immigration bill (S. 2611) would boost economic growth. Based on the projections of the Congressional Budget Office, it is estimated that the bill would boost the nation's Gross Domestic Product (GDP) by \$36 billion a year, on average, in 2007-2011, and by \$134 billion a year, on average, in 2012-2016.



Source: Analysis of CBO Cost Estimate of S. 2611

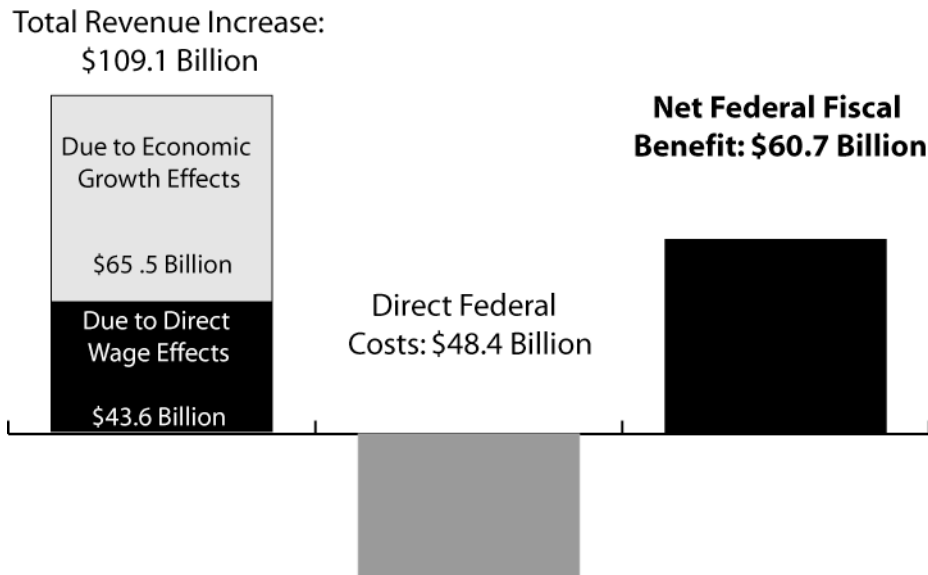
(GDP) by around \$36 billion a year over the next five years and by \$134 billion a year in 2012-2016. The actual benefits could be somewhat higher or lower, but there is little question that there would be net economic benefits.

Government statistics also reveal that the proposed “enforcement-only” approach would be extremely costly and would provide none of the fiscal and economic benefits of more comprehensive legislation. For example, the enforcement provisions of the Senate bill would increase federal spending, but would have no economic or fiscal benefits, according to CBO.

The economic and fiscal benefits of immigration should not be the sole or primary driver of immigration policy. But these benefits are important to keep in mind, particularly because “some of the fundamental economics of immigration are too often obscured by misguided commentary.”<sup>3</sup> A lack of understanding about the economic and fiscal benefits of immigration also has led to misguided public policies that discriminate against immigrants, despite their contributions. For example, ignoring the large economic gains that would result from immigrants’ labor, the Senate bill includes a punitive provision that would prohibit legalizing immigrants from utilizing credits available to all other taxpayers when computing their back taxes.

## The Fiscal Benefits of S. 2611

This chart compares the federal revenues that would be generated by the Senate's immigration bill over the next ten years with the direct federal costs of the bill (the amount by which the bill would increase spending on health care and other federal benefit programs).



Source: Analysis of CBO Cost Estimate of S.2611.

## The Economic and Fiscal Benefits of the Senate Immigration Bill

According to the Congressional Budget Office, the Senate bill would add about 2.5 million employees to the U.S. workforce by 2016. CBO finds that “the work performed by these additional employees would increase the production of goods and raise the level of gross domestic product (GDP) . . . .”<sup>4</sup> Based on CBO’s estimate of the impact of S 2611 on economic growth, the bill would add \$36 billion a year to GDP on average in 2007-2011 and \$134 billion a year in 2012-2016. At a minimum, S 2611 could add more than \$1 trillion to gross domestic product over the next ten years. (For more information on these estimates, see the Appendix.)

The provisions of the Senate bill that would provide new pathways to legal status also would have positive fiscal effects. The provisions would boost federal revenues in two ways. First, CBO projects that the amount of federal taxes paid by immigrants directly affected by the bill would increase by at least \$43.6 billion over the next decade.<sup>5</sup> Second, CBO projects that the increases in economic growth caused by the bill would increase the incomes of many citizens and immigrants who are not directly affected by the bill. This increase in income would boost federal tax revenues by about \$65.5 billion. Thus, as a result of these two separate effects, the Senate bill

would increase federal revenues by about \$109 billion over the next decade. As the figure titled “The Fiscal Benefits of S. 2611” (above) shows, the net federal fiscal benefits of the Senate bill’s immigrant provisions — the amount by which the increase in revenue as a result of the provisions would exceed the costs — would be around \$61 billion over ten years.

A more comprehensive approach to immigration reform would also have a positive effect on Social Security. According to the chief actuary of the Social Security Administration, Social Security’s “net cash flow would be expected to improve by about \$27 billion” between now and 2016 if the Senate bill were passed. SSA also notes that, “[i]ncluding interest effects, this change would reduce the federal debt held by the public by an estimated \$30 billion.”<sup>6</sup> The Senate bill also would reduce the projected long-term deficit in the Social Security Trust Fund and extend its projected solvency by two years.

Two caveats should be noted with regard to these estimates. First, the CBO and SSA projections do not capture all of the economic and fiscal benefits of immigration. The CBO projections only capture the estimated *increase* in revenues and economic growth that would result from the Senate bill. Thus, federal taxes already paid by immigrants, including many undocumented people, are not included in the projection. Second, the economic and fiscal estimates of CBO and the SSA chief actuary are subject to considerable uncertainty. The actual economic and fiscal benefits of comprehensive immigration legislation such as S 2611 may be larger or smaller than the CBO and SSA projections. However, there can be little doubt about the basic thrust of the projections, namely, that providing new pathways to lawful status *would have substantial economic and fiscal benefits and that these benefits would far outweigh the modest costs associated with the public services that are received by some of these immigrants and their descendants over time.*

### **Senate Bill Includes a Provision that Would Unfairly Deny Tax Credits to Legalizing Immigrants Paying Back Taxes**

Despite the large economic gains that would result from legalized immigrants’ labor, the Senate bill includes a punitive provision that would prohibit legalizing immigrants from utilizing credits and refunds available to all other taxpayers when computing their back taxes.

This provision should be removed from any final immigration reform legislation. Like any other tax increase, the provision would generate federal revenue, but requiring legalizing immigrants to pay higher taxes than other taxpayers with the same amount of income is patently unfair and sets a dangerous precedent.

S 2611 already imposes substantial fees that immigrants must pay in order to legalize. Denying standard tax credits to these workers would be excessively punitive.

## **Why Legalization Would Have Positive Economic and Fiscal Effects**

The positive economic and fiscal effects of comprehensive legislation would be due to the fact that such legislation would increase the number of workers in the U.S. economy. As CBO notes, “The work performed by these additional employees would increase the production of goods and services and raise the level of gross domestic product . . . .”<sup>7</sup> As a result, aggregate

wages would increase and thereby “yield increases in receipts from both individual income and payroll taxes.”<sup>8</sup>

The U.S. Internal Revenue Service determined that undocumented immigrants paid almost \$50 billion in federal taxes from 1996 to 2003.<sup>9</sup> Creating new pathways to legal status would further increase the number of immigrant workers who pay federal taxes and, because it would augment their wages, also increase the amount of taxes they pay.<sup>10</sup> Research has shown that undocumented immigrants who were legalized after passage of the Immigration Reform and Control Act of 1986 (IRCA) experienced wage gains that were mostly due to their change in status.<sup>11</sup> Research by University of Michigan economist Sherrie Kossoudji indicates that the gain related to legalization “would be larger today than it was when legal status was granted under IRCA.”<sup>12</sup>

The net fiscal gains from comprehensive immigration legislation also are consistent with research showing that, overall, immigration has a positive effect on the economy. For example, a 1997 study by the National Academy of Sciences found that the net present value of immigrants’ estimated future tax payments exceeded the cost of any services they were expected to use by \$80,000 for the average immigrant and his or her descendants.<sup>13</sup> And in June 2006, more than 500 economists and other social scientists, including five Nobel Prize winners, signed a letter to President Bush and members of Congress reiterating their consensus that immigration is a positive force on the U.S. economy and a net gain to U.S. citizens.<sup>14</sup>

## Appendix: Methodology

The analysis in this paper is based on three documents:

- CBO's 10-year cost estimate for the S 2611 as passed by the Senate.<sup>15</sup> The cost estimate covers fiscal years 2007 through 2016 and includes the bill's projected effects on direct spending and revenues, and an estimate of the amount of appropriations necessary to implement the enforcement provisions of the legislation. This is an updated version of a cost estimate that CBO produced in May 2006, which was based on the bill as introduced.<sup>16</sup>
- A CBO memorandum — “Additional Information on the Estimated Budgetary and Economic Effects of S. 2611” — based on S 2611 as introduced that discusses the possible macroeconomic effects of the bill and their potential impact on federal revenue. In this memo, CBO produced estimates using two sets of assumptions for the impact on private saving and capital flows. Under the high investment assumption, private saving and capital flows were assumed to fully adjust to the additional supply of labor, keeping wage and interest rates at baseline levels. Under the low investment assumption, investment was assumed to adjust by a smaller amount, so that wage rates fall below, and interest rates rise above, baseline levels. Under the high investment assumption, CBO estimated that the bill would boost GDP by 0.4 percent, on average, from 2007 to 2011, and by 1.3 percent, on average, between 2012 and 2016. Under the low investment assumption, CBO estimated that the bill would boost GDP by 0.3 percent, on average, from 2007 to 2011, and by 0.8 percent, on average, between 2012 and 2016. CBO has yet to update this memorandum to take into account the changes made to the bill before the Senate passed it in July.
- The Aug. 30, 2006, testimony of Paul Cullinan, chief of the Human Resources Cost Estimate Unit at CBO, before the Committee on the Budget of the U.S. Senate.<sup>17</sup> This testimony reviews both of the above documents. In his discussion of the macroeconomic impact of the legislation, Cullinan notes that GDP would increase under the Senate-passed immigration bill, but by a smaller amount than CBO had estimated for the bill as introduced. According to Cullinan, this is because the estimated effects of the Senate-passed bill on the number of additional workers would be “about two-thirds as great as the effects estimated for the bill as introduced.”

To compute the amount by which the Senate-passed immigration bill would increase GDP, the GDP estimates in the CBO memorandum were reduced by one-third to take into account the lower number of additional workers under that bill. A single figure — the mid-point of the high and low estimates — is presented in the text. The table below provides the range based on the high and low estimates.

<b>GDP Impact</b>											
All figures in billions of dollars											
<b>Fiscal Years</b>	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2007-2016
<b>CBO Nominal GDP Projection</b>	13,993	14,685	15,425	16,174	16,914	17,684	18,491	19,317	20,167	21,052	173,900
<b>Estimated Growth in GDP Due to S. 2611 Immigrant Provisions as Introduced</b>											
<b>High</b>	56	59	62	65	68	230	240	251	262	274	1,566
<b>Mid</b>	49	51	54	57	59	186	194	203	212	221	1,286
<b>Low</b>	42	44	46	49	51	141	148	155	161	168	1,005
<b>Estimated Growth in GDP Due to S. 2611 Immigrant Provisions as Passed by the Senate (Reduced by 1.3 to Adjust for Lower Population Impact of Bill as Passed by Senate)</b>											
<b>High</b>	37	39	41	43	45	152	159	166	173	181	1,034
<b>Mid</b>	32	34	36	37	39	123	128	134	140	146	849
<b>Low</b>	28	29	31	32	33	93	98	102	106	111	663
<b>Average Annual Growth in GDP Due to S. 2611 as Passed by the Senate By Five-Year Period</b>											
	2007-2011	2012-2016									
<b>High</b>	40.76	165.95									
<b>Mid</b>	35.66	134.04									
<b>Low</b>	30.57	102.13									

The “official” revenue score of S. 2611 is limited to taxes on wages earned by additional immigrants, as well as the revenue implications of reductions in average wage rates due to additional workers. This score does not take into account increases in revenues due to the overall economic growth effects of the bill. In its memorandum, CBO estimated the additional budgetary impact of changes in the capital stock, which would affect wage rates, interest rates, and revenue from taxes on capital income, under the low investment and high investment assumptions described above. Under the high investment assumption, CBO estimated that those effects would improve the budgetary impact of the bill by about \$30 billion over the 2007-2011 period, and by about \$130 billion from 2012 through 2016. Under the low investment assumption, CBO estimated that those effects would improve the budgetary impact of the bill by about \$20 billion over the 2007-2011 period, and about \$60 billion from 2012 through 2016.

To compute the overall federal revenue effects of the Senate-passed bill, we added the mid-point of these amounts — reduced by one-third to take into account the lower levels of

immigration under the bill as passed by the Senate—to the scored revenue in the CBO projection. The table below provides the range using the high and low investment assumptions.

### Federal Fiscal Impact of S 2611 as Passed by Senate

	High 2007- 2011	High 2012- 2016	Total Using High Estimate of Additional Revenues 2007-2016	Low 2007- 2011	Low 2012- 2016	Total Using Low Estimate of Additional Revenues	Total Using Average of High and Low Revenues
<b>Revenues Scored by CBO</b>			43.6			43.6	43.6
<b>Additional Revenues Based on CBO Estimate of Macroeconomic Impact<sup>a</sup></b>	19.8	67.98	87.78	13.2	39.6	52.8	70.29
<b>Direct Spending</b>			48.4			48.4	48.4
<b>Total (Revenues Less Spending)</b>			82.98			48	65.49

NOTES:

a. CBO estimate of improvement in budgetary impact of S 2611 as introduced, reduced by one-third to take into account estimate of lower population growth under S 2611 as passed by Senate.

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- <sup>1</sup> “Immigration Reform, in Pieces,” NEW YORK TIMES, Sept. 26, 2006.
- <sup>2</sup> See, e.g., summary of results of TIME Magazine/SRBI national poll conducted Mar. 29-30, 2006, in “Immigration Reform: Polling Summary: Public Support for Comprehensive Immigration Reform,” National Immigration Forum, [www.immigrationforum.org/DesktopDefault.aspx?tabid=808](http://www.immigrationforum.org/DesktopDefault.aspx?tabid=808).
- <sup>3</sup> “Open Letter on Immigration,” June 19, 2006, [www.independent.org/newsroom/article.asp?id=1727](http://www.independent.org/newsroom/article.asp?id=1727).
- <sup>4</sup> Statement of Paul R. Cullinan, Chief, Human Resources Cost Estimates Unit, Congressional Budget Office, before the Committee on the Budget, United States Senate: “The Budgetary Impact of Current and Proposed Border Security and Immigration Policies,” Aug. 30, 2006, [www.cbo.gov/ftpdocs/75xx/doc7511/08-30-Immigration.pdf](http://www.cbo.gov/ftpdocs/75xx/doc7511/08-30-Immigration.pdf).
- <sup>5</sup> “Congressional Budget Office Cost Estimate: S. 2611, Comprehensive Immigration Reform Act of 2006, as Passed by the Senate on May 25, 2006” (Congressional Budget Office, Aug. 18, 2006), [www.cbo.gov/ftpdocs/75xx/doc7501/s2611spass.pdf](http://www.cbo.gov/ftpdocs/75xx/doc7501/s2611spass.pdf).
- <sup>6</sup> Letter from Social Security Administration to Senator Charles Grassley, July 24, 2006, available at [http://inclusionist.org/files/SSA\\_Analysis.pdf](http://inclusionist.org/files/SSA_Analysis.pdf).
- <sup>7</sup> “Congressional Budget Office Cost Estimate: S. 2611, Comprehensive Immigration Reform Act of 2006, as Introduced on April 7, 2006” (Congressional Budget Office, May 16, 2006), at 6, [www.cbo.gov/ftpdocs/72xx/doc7208/s2611.pdf](http://www.cbo.gov/ftpdocs/72xx/doc7208/s2611.pdf).
- <sup>8</sup> *Id.* at 28.
- <sup>9</sup> Statement of The Honorable Mark W. Everson, Commissioner, Internal Revenue Service, Testimony Before the House Committee on Ways and Means, July 26, 2006, <http://waysandmeans.house.gov/hearings.asp?formmode=view&id=5171>.
- <sup>10</sup> See Statement of Michael Fix, Vice President and Director of Studies, Migration Policy Institute, Testimony Before the House Committee on Ways and Means, July 26, 2006, <http://waysandmeans.house.gov/hearings.asp?formmode=view&id=5175>.
- <sup>11</sup> See, e.g., Francisco L. Rivera-Batiz, “Undocumented Workers in the Labor Market: An Analysis of the Earnings of Legal and Illegal Immigrants in the U.S.,” JOURNAL OF POPULATION ECONOMICS, Feb. 1999; Sherrie A. Kossoudji and Deborah A. Cobb-Clark, “Coming Out of the Shadows: Learning about Legal Status and Wages from the Legalized Population,” JOURNAL OF LABOR ECONOMICS 20:3, 2002, at 598.
- <sup>12</sup> Kossoudji and Cobb-Clark, *supra* note 10, at 623.
- <sup>13</sup> The study is available at <http://darwin.nap.edu/books/0309063566/html>.
- <sup>14</sup> “Open Letter on Immigration,” *supra* note 3.
- <sup>15</sup> Cost Estimate of S 2611, as Passed by the Senate, *supra* note 5.
- <sup>16</sup> Cost Estimate of S 2611, as Introduced, *supra* note 7.
- <sup>17</sup> Statement of Paul R. Cullinan, *supra* note 4.