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ADDING IT UP:
Accurately Gauging the Economic Impact of Immigration Reform

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With immigration reform legislation now making its way through Congress, it is imperative that we estimate as accurately as possible the full range of potential economic costs and benefits associated with any particular bill. It is especially important to establish the proper criteria for a complete, robust, and accurate fiscal scoring of any bill by the Congressional Budget Office (CBO). To that end, we should consider the growing consensus of the economic literature on the strongly positive benefits of immigration in general and of the various aspects of immigration reform in particular, as calculated using a variety of different methodologies. The CBO would be well-advised to keep this consensus literature in mind as it establishes the criteria it will use for scoring immigration reform legislation.

More and more research demonstrates the economic benefits of immigration reform.

The last few years have witnessed a burst in economic research showing the strongly positive net impacts of immigration in general and comprehensive immigration reform (CIR) in particular. Broad agreement has emerged as to not only the net economic and fiscal benefits of immigration and CIR, but the acceleration of those benefits over time. Moreover, these conclusions have been arrived at in studies utilizing a variety of different methodological approaches. It is important to point out that each of these different approaches is limited by a focus on separate aspects of immigration reform (Table 1). A complete methodological framework accounting for all of the components of CIR produces the largest-scale benefits.
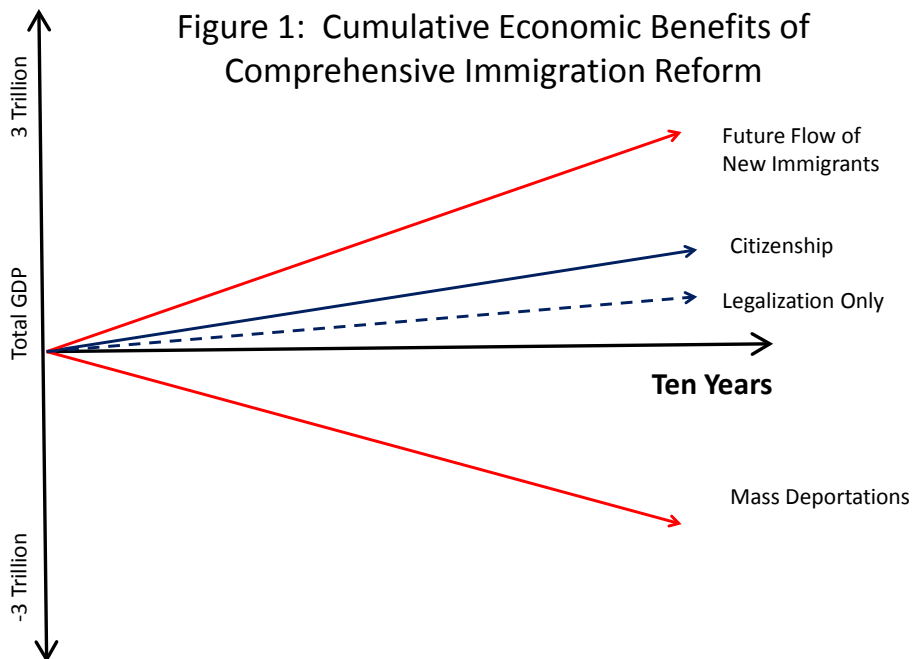
- **The benefits of legalization and a pathway to citizenship** have been calculated to be substantial using both partial and general equilibrium models (complex economic simulations that predict how a change in one part of the economy affects other parts of the economy), as well as aggregate projections based on econometric trends (historical data projected into the future). Raúl Hinojosa-Ojeda has used the historical example of the 1986 Immigration Reform and Control Act (IRCA) to estimate a 15.1% wage increase and associated productivity growth from 1988 to 1991, calculating partial and general equilibrium effects which were then projected for a similar three-year timeframe today.[3] Moreover, Robert Lynch and Patrick Oakford projected a 10-year timeframe for both legalization and citizenship, with the latter producing an estimated additional 10% income gain beyond the 15.1% gain from legalization.[4] The results indicated that in a scenario of immediate legalization and citizenship, U.S. Gross Domestic Product (GDP)

would grow by $1.4 trillion in 10 years, while a scenario of legalization only produces a more modest $832 billion cumulative gain[5] (see Figure 1). A May 2013 report by Robert Rector and Jason Richwine of The Heritage Foundation fails to acknowledge any of these gains of legalization, opting instead to create a very limited estimate of what immigrants would pay in net taxes over their lifetime, while offering no examination of the overall economic and fiscal benefits of immigration and immigration reform.[6]

- **The economic benefits of future immigration flows** through more flexible legal channels have been shown to be significantly higher **than for legalization alone because they introduce a new factor of production: labor. The** impacts of these flows on GDP have been calculated by Peter B. Dixon and Maureen T. Rimmer,[7] as well as by Hinojosa-Ojeda,[8] all of whom use computable general equilibrium models. These studies produce similar results of $1.8 and $1.5 trillion in additional GDP over 10 years. Longer term impacts using economic-based extrapolations of demographic and technological trend dynamics are produced by Holtz Eakins, generating net positive economic and fiscal benefits amounting to a $2.5 trillion reduction in the cumulative federal deficit over 10 years.[9]

- **The high costs of an enforcement-only response to unauthorized immigration** have been estimated by Dixon and Rimmer,[10] as well as by Hinojosa-Ojeda, who found that a mass deportation and zero-immigration policy would decrease U.S. GDP by $2.6 trillion over 10 years.[11] Dixon and Rimmer have also modeled the effects of various enforcement strategies (including border and workplace enforcement), finding reduced GDP effects,[12] while Hinojosa projects soaring costs per apprehension.[13]

- **The international effects of CIR**, while not explicitly addressed in the legislative proposals, are nevertheless an evitable reality included in CBO scoring which has been explored in the literature. Michael Clemens reviews a number of partial and general equilibrium models indicating massive international benefits from migration from poor to rich countries, even when involving relatively small labor-market shares.[14] Hinojosa-Ojeda and Sherman Robinson,[15] and Hinojosa-Ojeda and Robert McCleery,[16] specifically analyze the migration and remittance impacts in the context of the U.S. Mexico and Central America, indicating reduced demand for migrants after CIR and a slight increase in remittances as legalized migrants' wages rise.

Table 1:
The CIR Impacts due to Legalization and Future Flows:
CBO Scoring compared to Economic Literature

CIR Impact Components	CBO Scoring techniques compared to Economic Literature Consensus		Economic Literature Consensus
	CBO (2006)		
	Basic Dynamics	Additional Dynamics	
Future Flows Impacts: (a) GDP expansion due directly from labor force growth via migration	YES	YES	YES
Future Flows Impacts: (b) Indirect expansion of GDP resulting from future flows: - Private savings - Investment - Capital flows - Interest rates - Resulting effect on wages	NO	YES	YES
Legalization Impacts	NO	NO	YES

Figure 1: Cumulative Economic Benefits of Comprehensive Immigration Reform

[Chart with vertical axis labeled "Total GDP" (3 Trillion at top, -3 Trillion at bottom) and horizontal axis labeled "Ten Years". Five trend lines originate from the origin: "Future Flow of New Immigrants" (red, rising steeply), "Citizenship" (dark blue, rising moderately), "Legalization Only" (dashed blue, rising slightly), and "Mass Deportations" (red, declining steeply).]

CBO Scoring Strategies

As the Senate begins consideration of immigration reform legislation, it is very important to establish the proper criteria for a complete, robust, and accurate fiscal scoring of the legislation by the CBO. While the concept of "dynamic scoring" has been debated recently in relation to the macro-economic benefits of fiscal policy reform, the dynamic mechanics that need to be analyzed are very different for immigration reform. Unlike the effects of fiscal policy, immigration unambiguously generates additional labor for GDP expansion, productivity, and real-asset wealth effects, all of which must be included in a proper fiscal scoring of immigration reform legislation. It is also important to distinguish among the various components of the robust and accelerating economic and fiscal benefits of immigration and immigration reform. The broad methodological range of the studies presented above, each focusing on various aspects of immigration reform, is instructive for the discussion on the best CBO approach.

The CBO has indicated that it "would use the same basic analytic approach that it did in 2006," whereby the CBO and Joint Committee on Taxation (JCT) "relaxed" the assumption of fixed macroeconomic variables such as employment and savings and investment.[17] In the words of CBO Director Douglas W. Elmendorf, "because S. 2611 would have had the direct effect of significantly increasing the size of the U.S. labor force (resulting in an estimated 3.4 million additional workers in the United States by 2016), CBO and JCT relaxed that assumption and incorporated in the cost estimate the direct effect of the bill on the U.S. population, employment, and taxable wages."[18] However, the CBO also "described the effects that were not taken into account in that estimate (specifically, the impact on private saving, capital flows, and interest rates, and the resulting effect on wages), and the additional budgetary effects that would ensue."[19]

Obviously, the incorporation of both the direct effects of labor force growth, as well as the additional indirect effects, would be crucial in accurately determining the economic and thus net fiscal impacts of immigration policy reforms. It is interesting to note that the CBO did consider as an effect the potential international impacts of foreign capital inflows related to increased immigration, as well as the related outflow of remittances and immigrant savings rates. Not considered are the impacts of remittances on U.S. exports or reduction in migrant labor supply depending on the productive versus consumption impacts of remittances.

It is important to keep in mind that even taking these effects into account, the CBO scoring strategy would still only be focused on the impacts of future flows of immigration. Entirely missing would be the economic benefits associated with legalization, which are likely to be substantial and which have important impacts on exactly the economic variables the CBO is seeking to capture.

Implications for Policy

A combined methodological approach must be used to establish a solid foundation for a complete fiscal scoring of any immigration reform bill. This will provide the foundation necessary to determine how best to maximize the economic and net fiscal benefits of CIR. The implications of this review of recent literature and CBO scoring approaches indicate that:
1) Rapid rates of legalization and citizenship would substantially accelerate the economic benefits.
2) Relatively higher flows of immigration would contribute to even larger net economic benefits.
3) With legalization and larger future flows, unauthorized border crossings would decline, enforcement spending could be decreased, and thus the massive rising costs per apprehension would be reduced.
4) Improving the productive use of immigrant savings and remittances in receiving countries would generate significant export demand for the U.S. and reduce the supply of migrant labor into the U.S.

Endnotes

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[2] Sherman Robinson is a Senior Research Fellow at the International Food Policy Research Institute (IFPRI). Before joining IFPRI, he was a Professor of Agricultural and Resource Economics at the University of California, Berkeley. He has been a consultant to the World Bank and has held visiting senior-staff appointments at the Economic Research Service, U.S. Department of Agriculture, the U.S. Congressional Budget Office, and the President's Council of Economic Advisers (in the Clinton administration), where he largely worked on trade issues, including regional trade agreements, GATT/WTO negotiations, and the North American Free Trade Agreement (NAFTA). Professor Robinson is a leading expert, on computable general equilibrium (CGE) simulation models, which have become a standard tool of analysis of trade and fiscal policy reform, regional integration, structural adjustment, and development strategies.

[3] Raúl Hinojosa-Ojeda, *Raising the Floor for American Workers: The Economic Benefits of Comprehensive Immigration Reform* (Washington, DC: Immigration Policy Center and Center for American Progress, January 2010); Raúl Hinojosa-Ojeda, "The Economic Benefits of Comprehensive Immigration Reform: General Equilibrium Approach, *Cato Journal* 32, no. 1 (Winter 2012): 175-199.

[4] Robert Lynch and Patrick Oakford, *The Economic Effects of Granting Legal Status and Citizenship to Undocumented Immigrants* (Washington, DC: Center for American Progress, March 2013).

[5] Robert Lynch and Patrick Oakford, *The Economic Effects of Granting Legal Status and Citizenship to Undocumented Immigrants* (Washington, DC: Center for American Progress, March 2013), p. 10.

[6] Robert Rector and Jason Richwine, *The Fiscal Cost of Unlawful Immigrants and Amnesty to the U.S. Taxpayer* (Washington, DC: The Heritage Foundation, May 6, 2013).

[7] Peter B. Dixon and Maureen T. Rimmer, *Restriction or Legalization? Measuring the Economic Benefits of Immigration Reform* (Washington, DC: Cato Institute, August 2009); Raúl Hinojosa-Ojeda, "The Economic Benefits of Comprehensive Immigration Reform: General Equilibrium Approach, *Cato Journal* 32, no. 1 (Winter 2012): 175-199.

[8] Raúl Hinojosa-Ojeda, *Raising the Floor for American Workers: The Economic Benefits of Comprehensive Immigration Reform* (Washington, DC: Immigration Policy Center and Center for American Progress, January 2010).

[9] Douglas Holtz-Eakin, *Immigration Reform, Economic Growth, and the Fiscal Challenge* (Washington, DC: American Action Forum, April 2013).

[10] Peter B. Dixon and Maureen T. Rimmer, *Restriction or Legalization? Measuring the Economic Benefits of Immigration Reform* (Washington, DC: Cato Institute, August 2009); Raúl Hinojosa-Ojeda, "The Economic Benefits of Comprehensive Immigration Reform: General Equilibrium Approach, *Cato Journal* 32, no. 1 (Winter 2012): 175-199.

[11] Raúl Hinojosa-Ojeda, *Raising the Floor for American Workers: The Economic Benefits of Comprehensive Immigration Reform* (Washington, DC: Immigration Policy Center and Center for American Progress, January 2010).

[12] Peter B. Dixon and Maureen T. Rimmer, *Restriction or Legalization? Measuring the Economic Benefits of Immigration Reform* (Washington, DC: Cato Institute, August 2009); Peter B. Dixon, Martin Johnson, Maureen T. Rimmer, "Economy-Wide Effects of Reducing Illegal Immigrants in U.S. Employment," *Contemporary Economic Policy* 29, Issue 1 (January 2011): 14–30.

[13] Raúl Hinojosa-Ojeda, et al., *Transnational Innovation Fund for Financial Transparency, Inclusion and Accountability* (UCLA NAID Center and Boston University Center for Finance, March 2013).

[14] Michael A. Clemens, "Economics and Emigration: Trillion-Dollar Bills on the Sidewalk?" *Journal of Economic Perspectives* 25, no. 3 (2011): 83-106.

[15] Raúl Hinojosa-Ojeda and Sherman Robinson, "Labor Issues in a North American Free Trade Area," in Nora Lustig, Barry Bosworth, and Robert Lawrence, eds., *North American Free Trade: Assessing the Impact* (Washington, DC: Brookings Institution Press, 1992): 69-108.

[16] Raúl Hinojosa-Ojeda and Robert McCleery, "U.S.-Mexico Interdependence, Social Pacts, and Policy Perspectives: A Computable General Equilibrium Approach," in Jorge Bustamante, et al., eds., *U.S.-Mexico Relations: Labor Market Interdependence* (Stanford, CA: Stanford University Press, 1992): 113-154.

[17] Letter to the Honorable Paul Ryan, Chairman, Committee on the Budget, U.S. House of Representatives, from Douglas W. Elmendorf, Director, Congressional Budget Office, May 2, 2013.

[18] Letter to the Honorable Paul Ryan, Chairman, Committee on the Budget, U.S. House of Representatives, from Douglas W. Elmendorf, Director, Congressional Budget Office, May 2, 2013.

[19] Congressional Budget Office, "Additional Information on the Estimated Budgetary and Economic Effects of S. 2611" (attachment to a letter to the Honorable Charles E. Grassley, Chairman, Committee on Finance, U.S. Senate), May 16, 2006.