



THE ECONOMICS OF IMMIGRATION REFORM:

WHAT LEGALIZING UNDOCUMENTED
IMMIGRANTS WOULD MEAN FOR THE
U.S. ECONOMY



IMMIGRATION POLICY CENTER

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THE ECONOMICS OF IMMIGRATION REFORM: What Legalizing Undocumented Immigrants Would Mean for the U.S. Economy

Now more than ever, Americans are seeking real solutions to our nation's problems, and there is no better place to start than protecting our workers, raising wages, and getting our economy moving again. Part of this massive effort must include workable answers to our critically important immigration problems.

Legalizing undocumented workers would improve wages and working conditions for all workers, and increase tax revenues for cash-strapped federal, state, and local governments. Moreover, comprehensive immigration reform that includes a path to legalization for undocumented workers would pay for itself through the increased tax revenue it generates, in contrast to the failed and costly enforcement-only policies that have been pursued thus far. Newly legalized workers would be able to move into higher-paying jobs, pay more in taxes, and spend more on goods and services—all of which would increase the already-substantial economic benefits of immigration for the United States.

Without comprehensive reform of the immigration system, our nation cannot experience a full economic recovery. As it is, undocumented workers make up roughly [5%](#) of our labor force.¹ In the absence of reform, this huge chunk of our workforce will continue to fall through a trap door into the underground economy. The existence of a large underground labor market puts downward pressure on wages in some industries, weakens workplace safety, and undermines the well-being of all American workers. Reforming our immigration system should be part of the solution, not an enduring obstacle, to fixing our economy.

The available research suggests that:

- Legalization increases government revenues by bringing more workers into the tax system.
- Workers with legal status earn and spend more.
- “Enforcement-only” policies are expensive and ineffective.
- Legalization increases immigration's economic benefits.

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Comprehensive Immigration Reform Pays For Itself

- **The 2006 immigration reform bill, which included a legalization program, would have more than paid for its reform provisions through increased tax revenue.** The Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) have [estimated](#) that, as originally introduced on April 7, 2006, the Comprehensive Immigration Reform Act of 2006 would have generated \$66 billion in new revenue during 2007-2016 from income and payroll taxes, as well as various administrative fees.²
 - This additional revenue would have more than offset the \$54 billion in new “direct spending” during 2007-2016 for refundable tax credits, Medicaid, Medicare, Social Security, and food stamps for newly eligible immigrants and their families.³
 - In addition, the extra revenue also would have partially offset the \$64 billion in new “discretionary spending” on immigration enforcement during 2007-2016.⁴ This enforcement spending was unrelated to the legalization and other immigration-reform provisions of the bill.
- **The 2007 immigration reform bill, which included a legalization program, would also have more than paid for its reform provisions through increased tax revenue.** The CBO and JCT have [estimated](#) that the Comprehensive Immigration Reform Act of 2007, as amended by the Senate through May 24, 2007, would have generated \$48 billion in new revenue during 2008-2017 from income and payroll taxes, as well as various administrative fees.⁵
 - This additional revenue would have more than offset the \$23 billion in new “direct spending” during 2008-2017 for refundable tax credits, Medicaid, Medicare, Social Security, and food stamps for newly eligible immigrants and their families.⁶
 - In addition, the extra revenue also would have partially offset the \$43 billion in new “discretionary spending” on immigration enforcement during 2008-2017.⁷ This enforcement spending was unrelated to the legalization and other immigration-reform provisions of the bill.

Legalization Would Increase Tax Revenue

- **Trying to eliminate the undocumented workforce through “enforcement-only” policies would only force *more* workers into the underground economy and *decrease* tax revenue.** The CBO released an [estimate](#) of the costs that would have been imposed on the federal treasury by the “SAVE Act,” an enforcement-only immigration bill which would have created a national, mandatory, electronic employment-verification system. The CBO concluded that mandatory E-Verify would **decrease federal revenues by \$17.3 billion over the 2009-2018 period**; in large part because it would precipitate an increase in the number of workers in the underground economy who are paid outside the tax system.⁸
- **An “underground” labor force represents lost tax revenue.** The [Fiscal Policy Institute](#) examined the construction industry in New York City and found that nearly one in four workers (including many native-born workers) were misclassified as “independent contractors” or were working completely “off the books.” The report found that the costs of the underground construction industry are large: the city, state, and federal governments were denied an estimated **\$272 million** in 2005 because of employers who did not pay payroll taxes for Social Security,

Medicare, workers' compensation, unemployment insurance, and disability insurance; as well as another **\$70 million** in lost personal income taxes, because there is no withholding when workers are paid "off the books."⁹ While legalization would not entirely fix the problem of misclassification or the underground economy, it is clear that when workers are "on the books," governments make more in revenues—and legalization is part of what would be needed to increase the number of workers paid "on the books."

- **Between one-half and three-quarters of undocumented immigrants now work "on the books" and pay federal and state income taxes, Social Security taxes, and Medicare taxes.** But, as the [2005 Economic Report of the President](#) points out, they "are ineligible for almost all Federal public assistance programs and most major Federal-state programs."¹⁰ Legalization would draw **all** of these currently undocumented workers into the tax system, and make these programs work the way they were intended.
- **Undocumented immigrants working "on the books" currently subsidize the Social Security system.** The Social Security Administration (SSA) has concluded that undocumented immigrants "account for a [major portion](#)" of the billions of dollars paid into the Social Security system under names or Social Security numbers that don't match SSA records.¹¹ These payments, which are tracked through the SSA's Earnings Suspense File (ESF), represent a significant subsidy to the Social Security system because undocumented immigrants cannot benefit from them. As of October 2006, the reported earnings of those workers who cannot receive Social Security benefits because of discrepancies with SSA records totaled [\\$586 billion](#).¹²
- **Even legal immigrants, who are eligible for benefits, contribute significantly to the Social Security system because immigrants in general tend to be younger than the native-born.** The National Foundation for American Policy calculated that "over the next 50 years, new legal immigrants entering the United States will provide a net benefit of [\\$407 billion](#) in present value to America's Social Security system."¹³

Workers with Legal Status Earn and Spend More

- **Legal status allows workers to earn higher wages.** Workers legalized under the Immigration Reform and Control Act of 1986 (IRCA) experienced an average hourly wage increase of 15% after four to five years, according to surveys conducted by Westat, Inc., for the [Department of Labor](#).¹⁴ When workers' wages increase, they pay more in federal and state income taxes. They also buy more goods and services from a wide range of businesses, which creates additional jobs and generates more revenue from sales taxes and business taxes.
 - IRCA "led to a boom in family investments in education and a rush to join the mainstream banking system, generating very high rates of home ownership and small business investments, providing long-term economic benefits of job creation, community development and strong net tax revenue growth," according to a study by [Raúl Hinojosa-Ojeda](#), Director of the UCLA North American Integration and Development Center.¹⁵
- **Legal status lets workers parlay greater education and mastery of English into higher pay.** The wage gains experienced by workers legalized under IRCA resulted in large part from the fact that legal status allows workers with more education or proficiency in English to earn higher wages, according to [research](#) by economists at the University of Michigan and Australian National University. For instance, if the immigrant men who received legal status under IRCA had been "legal" throughout their entire working lives in the U.S., their wages by 1992 would

have been 24% higher because they would have been paid in relation to their actual skills, and would have been motivated to improve their skills to increase their earning power.¹⁶

- **Legal status encourages workers to improve their skills.** When workers are undocumented, there is little or no relationship between their actual skill levels and the wages they earn. Once they are legalized, however, workers with more skills are able to earn higher wages. IRCA not only allowed formerly undocumented workers with more skills to command higher wages, but provided a powerful incentive for **all** newly legalized workers to improve their English and acquire more education so they could earn more.¹⁷
- **Legal status allows workers to move into higher-paid occupations.** Many workers legalized under IRCA were able to move into entirely new occupations that pay higher average wages than the occupations in which they previously worked, according to various [studies](#).¹⁸ For instance, a [survey](#) of Mexican men legalized under IRCA found that 38.8% had moved up into higher-paying occupations by 1992.¹⁹

Legalization Levels the Playing Field for All Workers and Businesses

- **“Consigning undocumented workers to a precarious existence undermines all who aspire to a middle-class standard of living,”** according to [Cristina Jiménez](#), an immigration policy consultant at the Drum Major Institute for Public Policy. Undocumented workers are frequently exploited because they lack legal status, allowing unscrupulous employers to undermine competitors and undercut the wages of native-born workers. Undocumented immigrants may be unwilling to complain about poor wages and working conditions because they fear deportation. “Only when undocumented immigrants have the ability to exercise complete workplace rights will they help exert upward pressure on wages and labor standards that will benefit other workers,” says Jiménez.²⁰
- **A new Congress and a new Administration need to put all workers first and punish abusive employers who violate immigration and labor laws** to increase their profit margins and undermine competitors. A [report](#) by the Government Accountability Office (GAO) identified cases in which the Wage and Hour Division of the Department of Labor inadequately investigated complaints about employers who failed to pay minimum wage and overtime.²¹ Another [GAO report](#) studied the decrease in Wage and Hour Division enforcement actions during the Bush Administration.²²

“Enforcement-Only” Policies are Costly and Ineffective

- **At the same time that spending on immigration enforcement has skyrocketed, the number of undocumented immigrants in the United States has roughly [tripled](#) from 3.5 million in 1990 to 12 million in 2008.**²³
 - The [annual budget](#) of the U.S. Border Patrol stood at \$1.6 billion in Fiscal Year (FY) 2006—an increase of 332% since 1993. The number of Border Patrol agents grew to 14,923 in FY 2007—an increase of 276% since FY 1993.²⁴ U.S. Customs and Border Protection (CBP), the parent agency of the Border Patrol within the Department of Homeland Security (DHS), has seen its budget grow from \$5.9 billion to \$9.3 billion between [FY 2004](#) and [FY 2008](#).²⁵ The budget of U.S. Immigration and Customs Enforcement (ICE), the DHS interior-enforcement counterpart to CBP, has grown from \$3.7 billion in [FY 2004](#) to \$5.1 billion in [FY 2008](#).²⁶

- **The alternative to legalization—deportation—would be even more expensive.**
 - A policy designed to deport approximately 10 million undocumented immigrants would cost **at least \$206 billion over five years, or \$41.2 billion annually**, according to a study by the [Center for American Progress](#).²⁷ By way of comparison, the total budget for DHS in [FY 2008](#) was \$47 billion.²⁸
 - The removal of undocumented workers from the U.S. economy would represent a loss of 1.8 trillion in annual spending and \$651.5 billion in annual output, according to a study by the [Perryman Group](#).²⁹

Legalization Adds to Immigration’s Economic Benefits

- **Legalizing undocumented immigrants would increase the contributions that immigration already makes to the U.S. economy.** A [2007 report](#) from the White House Council of Economic Advisers concluded that **immigration as a whole increases the U.S. Gross Domestic Product (GDP) by roughly \$37 billion each year** because immigrants increase the size of the total labor force, complement the native-born workforce in terms of skills and education, and stimulate capital investment by adding workers to the labor pool.³⁰
- **Immigration raises wages for most Americans:** A [2006](#) study by Giovanni Peri, Associate Professor of Economics at the University of California-Davis, found that, between 1990 and 2004, the roughly 90% of native-born workers with at least a high-school diploma experienced wage *gains* because of immigration ranging from 0.7% to 3.4%, depending on their level of education. Immigrants do not compete with the majority of natives for the same jobs because they tend to have different levels of education and to work in different occupations. As a result, immigrants usually “complement” the native-born workforce—which increases the productivity, and therefore the wages, of natives.³¹
- **Immigrant purchasing power is enormous—and growing:** Latino buying power totaled \$951 billion in 2008 and is expected to increase to \$1.4 trillion by 2013, while Asian buying power totaled \$509.1 billion in 2008 and is expected to increase to \$752.3 billion by 2013. Since 1990, Latino purchasing power has increased by 349% and Asian buying power by 92%, according to the [Selig Center for Economic Growth](#) at the University of Georgia.³²
- **Immigrant businesses create jobs:** In 2002, 1.6 million [Hispanic-owned firms](#) provided jobs to 1.5 million employees, had receipts of \$222 billion, and generated payroll of \$36.7 billion.³³ The same year, 1.1 million [Asian-owned firms](#) provided jobs to 2.2 million employees, had receipts of \$326.4 billion, and generated payroll of \$56 billion, according to the U.S. Census Bureau.³⁴

Endnotes

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