

Costs of Immigration Reform Split Conservatives

By: Eric Pianin – April 10, 2013

A controversy is brewing among conservatives over the likely economic fallout from immigration reform, with some Republicans arguing it would be a long-term plus for economic growth and others opposing it as a drain on federal coffers.

The dispute, in part, stems from basic differences over the virtues of granting a path to citizenship to the 11 million illegal immigrants in the country. Republicans remain sorely divided over this question as the Senate and the Obama administration brace for a legislative battle over immigration reform proposals that could begin as early as this week.

Conservative economists and scholars disagree over how to measure the potential economic impact. The use of traditional budget and economic estimation tools by the Congressional Budget Office seem to reflect lasting costs associated with immigration reform. By contrast, “dynamic scoring” techniques—which factor in potential growth—suggest meaningful benefits that could reduce future budget deficits.

Since “supply side” economist Arthur Laffer sold President Ronald Reagan on the economic-expanding wonders of tax cuts back in the early 1980s, Republican lawmakers and administrations have pressed the CBO and Joint Tax Committee to use more “dynamic scoring” in estimating the long-term impact of tax cuts or tax reforms.

Now the question is whether those same techniques should be applied to gauging the impact of a liberalized immigration policy on the workforce, consumer demand and long-term tax revenues.

The Heritage Foundation, a premier conservative think tank and long an opponent of comprehensive immigration reform, uses more traditional scoring methods. Back in 2007, Heritage helped kill a previous Senate reform effort with an analysis concluding it would cost the government \$2.6 trillion in the decades to follow, due to increased demand for social services and retirement benefits.

“If the net benefits taken by amnesty recipients and their families exceed the Social Security and other taxes paid, the amnesty recipients will undermine rather than strengthen the financial support for U.S. retirees, even before they reach retirement age themselves,” wrote Robert Rector, a senior research fellow at the foundation.

In recent days, Heritage has come under attack from the libertarian Cato Institute and the American Action Forum, a think tank headed by former Republican CBO Director

Douglas Holtz-Eakin, for grossly underestimating the economic and budgetary benefits of embracing immigration reform proposals.

Alex Nowrasteh, an immigration specialist for Cato, said in a blog post last week that Heritage's "fatally flawed" methodology "produced a grossly exaggerated cost to federal taxpayers" of legalizing unauthorized immigrants "while undercounting or discounting their positive tax and economic contributions."

In listing the perceived flaws of the study, Nowrasteh said the study mistakenly counted households instead of individuals, failed to assume wage gains for unauthorized immigrants after legalization, failed to recognize that immigrants boost both the supply and demand sides of the American economy, and relied on "static" rather than "dynamic" scoring techniques in gauging the long term impact on social welfare programs.

"For example, Heritage should assume that wages and gross domestic product are altered considerably because of immigration policy reforms," he wrote. "In contrast to that economic reality, immigrant wages, gross domestic product, and government welfare programs are unrealistically static in Mr. Rector's study."

"His study largely ignores the wage increases experienced by immigrants and their descendants over the course of their working lives, how those wages would alter after legalization, and the huge gains in education amongst the second and third generation of Hispanics," the Cato analysis declared. Past economic studies of the 1986 immigration reform indicate that wages jumped dramatically once workers obtained legal status.

Meanwhile, the American Action Forum released an analysis on Tuesday projecting that comprehensive immigration reform, like some of the proposals now being promoted by Republican Sen. Marco Rubio of Florida and other members of the bipartisan "Gang of Eight," could boost the growth in economy by a percentage point every year over the coming decade. Holtz-Eakin said that the added growth in the gross domestic product would generate tax revenue that would reduce budget deficits by a combined \$2.5 trillion. Per capita GDP would increase by \$1,500, as the larger workforce would raise the growth potential of the economy.

"These channels suggest that any discussion of immigration reform that omits the benefits on economic performance is incomplete," the study concludes. "Similarly, there will be direct feedback from better economic growth to more revenues, fewer federal outlays, and 'dynamic' improvement in the federal budget. Traditional 'static' budget analyses of immigration reforms' impacts will be similarly incomplete."

By contrast, Heritage and other conservatives contend that a massive one-size-fits-all overhaul will generate policy chaos. A Heritage analysis published in January by Matthew Spalding, Jessica Zuckerman and James Jay Carafano argued for a more piecemeal approach.

Jim DeMint, the former GOP senator from South Carolina and the new head of the foundation, has joined in efforts to kill immigration reform or amnesty with warnings it would greatly add to the nearly \$17 trillion debt and further burden Social Security and other entitlement programs.

“Amnesty is not a free proposition to taxpayer,” DeMint told a group of bloggers on Tuesday. “And so we’re going to quantify that cost with scholarly peer review methodologies that we’re going to adhere to. What we’re looking at is the cost to taxpayers.”

The bipartisan proposal drafted by the Senate “Gang of Eight” would create a path to citizenship for unauthorized immigrants currently living in the U.S. – but contingent on securing the borders and creating an effective employment verification system and guest workers’ program to help fill the demand for highly skilled workers and farm labor.

Under the gang’s approach, the current ban on illegal immigrants accessing federal public benefits would also apply to lawful probationary immigrants. That requirement is similar to one in the 2007 Senate bill that Heritage’s Rector analyzed and helped to kill.

Rector argued back then that even while many illegal immigrants would be denied federal benefits for a decade or more until they achieved legal status, they would eventually begin to tap into federal social programs – especially Social Security – and siphon away a growing share of federal dollars.

Rector couldn’t be reached for comment on Tuesday. A spokesman for Heritage said that Rector and other analysts “are calculating the costs of key provisions likely to be in the immigration bill, but we aren’t quite ready to address them publicly.” Cato, the American Action Forum and Americans for Tax Reform, the group headed by anti-tax powerhouse Grover Norquist, are all urging a more “dynamic” scoring of the pending immigration legislation .

“It’s very important to recognize that this is a core economic policy decision,” Holtz-Eakin told the Washington Post. “Let’s acknowledge the value of immigrants.”