



Analysis: What Is the Economic Impact of Immigration Reform?

By: TED HESSON - Nov. 19, 2012

Leaders from both parties are talking about immigration reform as a central issue in 2013. Among other things, such a bill could potentially legalize 11 million undocumented immigrants who are currently living in the shadows.

How would that impact the economy?

There are a few different opinions out there.

To begin with, there is no certainty that a reform bill will materialize or, if it does, what it will look like. But there are some existing reports that, based on hypothetical scenarios, give an estimate.

"I wouldn't get too wedded to any particular or exact number, but I think you can learn a lot from the approach of going ahead and trying to make a projection," said David Dyssegaard Kallick, a senior fellow at the Fiscal Policy Institute, a nonpartisan organization that studies immigration and the economy. "You can see the magnitude of things."

To get an idea of what the numbers mean, we looked at two reports from respected researchers — one often cited by reform advocates and another cited by immigration restrictionists. Here's how each breaks down:

1. **"The Economic Benefits of Comprehensive Immigration Reform"** by UCLA professor Raúl Hinojosa-Ojeda, published by the Cato Institute, a libertarian think tank

Summary: Immigration reform would add \$1.5 trillion to the U.S. gross domestic product (GDP) over 10 years.

This report looks at three scenarios projected over a 10-year period: comprehensive reform, a guest worker program and mass deportation.

- Comprehensive reform would include a pathway to citizenship for undocumented immigrants who register, pay a fine and pass a criminal background check. That would add \$1.5 trillion to the GDP over 10 years.

- A temporary worker program with no path to citizenship would add \$792 million to the GDP, about half as much as reform.

- Mass deportation would result in \$2.6 trillion in lost GDP over 10 years.

How does Hinojosa-Ojeda get these numbers?

He starts by looking at the last large-scale legalization program in the United States. That would be the 1986 amnesty under President Ronald Reagan. Via this program, nearly 3 million undocumented immigrants became lawful residents. The post-amnesty data -- which looks at a minimum period of three years, between 1988 and 1991 -- showed that legalization boosted wages for undocumented workers.

He then takes the wage increase experienced after the 1986 amnesty by this group and applies that to the number of people projected to seek legalization this time around. In Hinojosa-Ojeda's version of comprehensive reform, the immigration system is also adjusted so that the flow of immigrant workers entering the country during the 10-year period his report covers are doing so legally. He adds the higher wages that those legal workers would receive to his projection. "What you get are these very powerful increases in wages for the legalized population and the existing population," Hinojosa-Ojeda says.

This approach has its limitations, according to Laura Hill, a policy fellow at the Public Policy Institute of California (see her report below). The economic conditions of the late 1980s and early 1990s aren't the best indicator for predicting the impact in the present day, she says. "The world might have changed since 1986," Hill says. "That doesn't mean there wouldn't be any gains from legalization, it's just not the same magnitude of Hinojosa's work."

To find out how the wage gains would affect the GDP, Hinojosa-Ojeda used an economic model called a computable general equilibrium model -- essentially a super calculator. This program incorporates 20,000 to 30,000 equations and is also used by the U.S. government to determine figures like the potential impact of tax revenue.

These types of programs can cost hundreds of thousands of dollars to develop: "This is for when you absolutely have to have the best results," Hinojosa-Ojeda said. While the tool is high power, what's more important is the data that you put in.

Hinojosa-Ojeda chose to use data from the last mass legalization program, which showed big wage increases. He also made the assumption that a better functioning immigration system would allow new immigrant workers to start at a higher salary. That all translates to big GDP gains over 10 years.

Verdict: Economists generally agree that a path to legalization would have a positive economic impact, but putting an exact dollar amount on that impact requires making some assumptions along the way. If the assumptions Hinojosa-Ojeda has made about the effects of reform hold true, the projection should be roughly on target.

2. **"Immigrant Legalization: Assessing the Labor Market Effects"** by Laura E. Hill / Magnus Lofstrom / Joseph M. Hayes, Public Policy Institute of California

Summary: Legalizing undocumented immigrants will not lead to dramatic changes in the labor market, either for unauthorized immigrants or for native workers.

This report focuses on immigrants who are in the process of going from from undocumented to becoming permanent residents, ie, green card holders. Then it asks if occupational mobility and wages grow at a greater rate for these new permanent residents than for immigrants who legally entered the country.

The report finds that overall gains in wage growth and occupational mobility after legalization would likely be small.

There's a problem with this approach, according to Hinojosa-Ojeda. A mass legalization program has a greater impact on wages and the labor market than simply gaining legal residency through avenues that are already available. "The only study on the actual movement from undocumented status to legalization [by the U.S. Department of Labor] shows much bigger impact," he wrote in an email.

In addition, this report looks at workers who are already on the path to becoming legal permanent residents -- something that's difficult to achieve for the average undocumented person. "You can only get that under very extraordinary circumstances," says Hinojosa-Ojeda. "So these are extraordinary workers." In other words, the report isn't looking at typical undocumented workers.

This report also studies a smaller period of time. While the Hinojosa-Ojeda report uses a minimum of three years worth of data from 1988 to 1991, the interviews here only span 4 to 13 months from when the subject gains residency. The researchers didn't choose that on purpose, it was the only recent data available aside from the 1986 amnesty figures, and they wanted to look at a time period closer to present day. "It's possible that things could change if we had a longer window," Hill says.

In this case there is no projection about how legalization would affect the GDP, but Hill thinks that if researchers did make a prediction, the results would still be much different than the first report. "I do think that if you plugged our numbers into Hinojosa model, you're not going to get the number he did, it's not possible."

Verdict: Not conclusive. The data set looks at workers in a scenario that's significantly different from mass legalization. And the short time period raises questions about whether the study can accurately project the impact of reform.

The report has value in that it suggest that the economic impact of reform might be muted among certain sectors of workers. For example, it shows that for those already on a path to legalization, getting legal status had little impact on wage growth, at least over a short period of time.

Takeaways:

Predicting economic scenarios 10 years down the road is a science, but estimates can vary. Researchers need to make some assumptions along the way, like whether a legalization program today would have the same effects as a legalization program did 25 years ago. And there's limited data on what happens when undocumented workers are given legal status. For that, you have to turn back the clock to 1986.

However, of nine economists and policy experts consulted by ABC/Univision, the majority found that a mass legalization program would have an overall positive impact on the economy.

That includes John Feinblatt, the chief policy advisor for New York City Mayor Michael Bloomberg, whose Partnership for a New American Economy has done its own body of research on the impact of reform.

"There's a pretty straightforward explanation for this," Feinblatt, said. "The act of immigration itself is an entrepreneurial act. Picking up your things, leaving your relatives behind and coming to a new country is about wanting something better for yourself."