

US economy: will immigration reform help the recovery?

By Kim Gittleson
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US President Barack Obama angered many - and pleased few - when he announced plans last week to reform parts of the US immigration system without Congressional approval.

But one potential impact of his plan - the boost it will provide to the US economy - could help sway many Americans who are still primarily concerned with the sluggish pace of the recovery.

The question, of course, is just how much the US economy could benefit from President Obama's proposal, which would give an estimated four million immigrants who are here illegally a path towards legal status, as well as reforming part of the visa process that allows high-skilled workers primarily in technology fields to work in the US.

A [study by economists at UCLA](#) estimates that this proposal will generate, in the short term, \$6.8bn in labour income, create around 160,000 jobs and create \$2.5bn in tax revenue.

A different study by the White House [has estimated](#) that in the long term, the plan would increase gross domestic product (GDP) - what the US economy produces - by about 0.4% to 0.9% - or about \$90bn to \$210bn - over the next ten years.

Alex Nowrasteh, an immigration policy analyst with the right-leaning Cato Institute, says: "What seems to be the case is that everyone agrees that the economic benefits will be positive from legalisation.

"The dispute is over to what degree."

The eighties are back

Most economists agree that there are two main ways that President Obama's immigration plan will affect the US economy: via the wages paid to low-skilled workers, and via the productivity boost that comes from allowing more high-skilled workers to enter the US labour force.

In the case of the former, the best data comes from 1986. That's when then-US President Ronald Reagan announced a sweeping amnesty programme for immigrants who were in the country illegally, where any unauthorised immigrants who had already been living in the US continuously since 1982 were eligible for temporary legal status.

Academics who have studied the impact of that programme on those immigrants found that their wages rose anywhere from five to 10%, according to several studies.

The wage boost was a result of several factors, according to Giovanni Peri, a professor of economics at University of California, Davis.

Illegal immigrant workers who previously could not switch jobs, out of fear of being reported to authorities, could now search for work better suited to their skills.

Furthermore, immigrants granted amnesty "invest more in their abilities and their training because they know they'll be here for a long time," says Prof Peri, leading to wage increases down the line.

Participation problems

The question for those looking to study how this increase in wages might impact the overall US economy is not whether or not wages will rise - but how many workers will choose to participate in President Obama's initiative.

Under Reagan's plan, only around 50% to 75% of those who were eligible took advantage of the law - and most observers expect a similar or even lesser level of participation this time around, because President Obama's order will not grant illegal immigrants full legal status.

"We only expect about two million people will come forward which is not huge in a labour force of 150 million," says Randy Capps, the director of research for US programmes at the Migration Policy Institute.

Furthermore, Mr Capps said the benefit in terms of tax revenues would almost certainly be negligible.

That is because anywhere from one third to two thirds of illegal immigrants are working under false Social Security numbers or other papers, meaning they already contribute income taxes.

Halo effect

Another aspect of President Obama's immigration overhaul involves changing the restrictions involved on the visas for high-skilled immigrants, known as H1B - something Silicon Valley firms [have long been lobbying for](#).

Although the provisions offered by President Obama fell far short of the long list of tech firm demands, there will nonetheless be some economic benefits, according to Mr Capps.

The biggest change is that the spouses of H1B visas, who had previously been banned from working in the US, will now be allowed to look for work - adding potentially tens of thousands of highly educated women to the workforce.

The changes will also allow students to stay longer.

Economists say that rather than possibly displacing American workers, research indicates the productivity increases will actually lead to more hiring.

"Most of the economic literature suggests that when you bring in more high-skilled workers, that benefits everyone. They generate more productivity, and they don't displace other workers," says Prof Peri.

Overall, however, Prof Peri summed up what almost every analyst and economist has said.

"The impact of the legalisation is going to be quite small - I don't want to make it sound like its going to be a huge economic boost.

"The life of the American worker will probably not change very much."

But in a US economy where wages have stagnated for nearly two decades and months of jobs growth have yet to translate into any meaningful sense of a return of economic well-being, not very much might just be enough.