Assembling the Pieces:

The Economics of Step-by-Step Immigration Reform

Executive Summary

May 2015

BIPARTISAN POLICY CENTER

AUTHORS

Matt Graham
Senior Policy Analyst, Bipartisan Policy Center (BPC)

Joel Prakken
Senior Managing Director and Co-founder, Macroeconomic Advisers

Theresa Cardinal Brown
Director of Immigration Policy, Bipartisan Policy Center

Lazaro Zamora
Policy Analyst, Bipartisan Policy Center

DISCLAIMER

This report was jointly prepared by the Immigration Task Force staff and a consultant. The findings and conclusions reached in this document do not necessarily reflect the views of BPC's Immigration Task Force Members or BPC, its founders, or its board of directors.

Immigration Task Force Co-Chairs

Haley Barbour
Former Governor of Mississippi

Ed Rendell
Former Governor of Pennsylvania

Henry Cisneros
Former U.S. Secretary of Housing and Urban Development

Condoleezza Rice
Former U.S. Secretary of State

Task Force Members

Howard Berman
Former U.S. Representative

Ed Brady
President, Brady Homes

Al Cardenas
Senior Partner, Squire Patton Boggs; Former Chairman, American Conservative Union

John Chen
Executive Chair & CEO, Blackberry

Michael Chertoff
Former U.S. Secretary of Homeland Security; Chairman and Co-Founder, The Chertoff Group

Eliseo Medina
Chair, SEIU Immigration and Latino Civic Engagement Initiative

John Rowe
Chairman Emeritus, Exelon Corporation

John Shadegg
Former U.S. Representative

Hilda Solis
Former U.S. Secretary of Labor

Staff

Theresa Brown
Director of Immigration Policy

Matt Graham
Senior Policy Analyst

Lazaro Zamora
Policy Analyst

Abby Kamp
Administrative Assistant

Co-Chairs Haley Barbour, Ed Rendell, Condoleezza Rice, and Henry Cisneros.

Letter from the Co-Chairs

Our country's immigration system is in urgent need of reform. It has been 25 years since Congress significantly updated the country's legal immigration system and nearly 30 years since the Immigration Reform and Control Act tried to address the unauthorized immigrant population. In that time, there have been several significant, but ultimately unsuccessful attempts at comprehensive immigration reform. Many lawmakers now argue that the best chance for effective reform lies in pursuing a sequence of more targeted legislative actions. This new study analyzes the potential macroeconomic and budgetary effects of possible components of such step-by-step immigration reform.

The results reveal that there are numerous paths to effective reform. However, in all cases, the key to future prosperity is a system that combines increases in enforcement with measures that can maintain and grow the labor force. The results of the analysis reveal that an effective enforcement-only approach would lower GDP and increase our national debt, but that combining enforcement with other policies can achieve the best of both worlds.

While our nation's economic health is obviously a paramount concern, we want to emphasize that economic costs and benefits are only one aspect of immigration reform. This study did not seek to address complex issues regarding security at the border, the mechanics of how to overhaul legal avenues for immigration, or a host of other critical social policy issues.

America's ability to attract immigrants has helped the United States become history's greatest mobilizer of human potential. This analysis demonstrates that Congress has the tools to craft a sound, forward-looking immigration system that serves the broad national interest.

The BPC Immigration Task Force remains committed to supporting a center of gravity in the immigration debate that is anchored in evidence, analysis, and substantive debate.

Condoleezza Rice

Ed Rendell

Haley Barbour

Henry Cisneros

Executive Summary

Introduction

In 2013, the Bipartisan Policy Center (BPC) produced a detailed assessment of immigration reform's economic and budgetary impacts. At the time, the Senate-passed Border Security, Economic Opportunity, and Immigration Modernization Act of 2013 (S.744) was front and center in the immigration debate. The 2013 study used S.744 as a reference case and then assessed the economic and budgetary impacts of a variety of alternative scenarios and analytic assumptions. The study illustrated that fixing the broken U.S. immigration system has significant potential to improve the country's economic and fiscal outlook.

Over the past two years, many lawmakers have suggested that immigration reform should proceed not through a single comprehensive bill, but through a sequence of focused legislative efforts. To understand the potential macroeconomic and budgetary effects of "step-by-step" immigration reform, BPC partnered with Macroeconomic Advisers, LLC (M.A.) to conduct this follow-up study. Each of the five scenarios contains one or more components of immigration reform: enforcement (through mandatory electronic employment verification, or "E-Verify"), legalization, lesser-skilled temporary worker programs, and high-skill immigration reforms.

By combining individual policies in different ways, this study establishes a basis to assess the macroeconomic and fiscal implications of different approaches to immigration reform. The study does not seek to design or promote precise policy prescriptions. Instead, it explores core policy options that reveal fundamental budgetary and economic insights.

The analysis concludes that a sequential legislative approach could fix the nation's broken immigration system. However, the results demonstrate that to meet security imperatives while avoiding potential economic costs, legislative approaches must balance enforcement with other policy changes. If enacted in isolation, enforcement measures that successfully reduce unauthorized immigration also slow down economic growth and increase the federal budget deficit. Policymakers can avoid these impacts by combining enforcement provisions with policies that expand legal immigration and increase access to temporary workers.

The following are the study's key results. Unless otherwise noted, all of the study's results are relative to the current law baseline.

- **An enforcement-only approach to immigration reform using E-Verify would limit growth and increase deficits.** Successful enforcement measures would reduce the unauthorized immigrant population, which would shrink the labor force and the economy. Further, because unauthorized immigrants pay some taxes but use few federal services, an enforcement-only approach would also increase the federal deficit.

- **Combining policies that have different effects produced better results.** If policymakers want to reduce unauthorized immigration without reducing GDP or increasing the budget deficit, they can combine enforcement with other policies. Legal temporary worker programs would counteract enforcement's negative GDP and budgetary effects by adding workers to the economy. Legalization would also counteract enforcement's negative GDP effects by allowing existing workers to stay in the country and to improve their wages. However, because legalization leading to green cards would also give immigrants access to federal benefits, legalization would not reduce the deficit.

- **Immigration limits must be flexible to stay in step with the economy.** This study modeled temporary worker programs with fixed numerical limits, as is current practice. Eventually, the number of new "replacement" workers entering the

economy was unable to keep up with the decrease in the number of unauthorized immigrant workers. This reduced GDP. If caps are regularly adjusted, they are more likely to be in tune with the economy's needs and mitigate negative economic effects.

- **High-skill reform would have positive effects on GDP and reduce deficits.** As the only scenario that increases the size of the labor force, the high-skill only approach had the most positive effects on GDP. High-skill reform would also produce budgetary savings because high-wage workers tend to pay more in taxes than they use in government services.

- **Advancing all four reform components produced the most budget savings.** Over 20 years, the study's "all of the above" scenario reduced cumulative deficits by $570 billion. This occurs because the scenario combines two economically sound policies: (1) increasing high-skilled immigration; and (2) addressing the unauthorized immigrant population through a combination of enforcement, legalization, and expanded temporary worker programs.

- **Immigration reform's wage impacts are generally small.** None of the policy scenarios produced a wage impact of more than 0.3 percent, about $130 per year for the average worker. Wage effects were generally much smaller than reform's impacts on the GDP or budget. Importantly, the study only examined the overall average change and did not break wage effects down by skill level or industry.

- **Immigration reforms that provide more future immigrants have larger positive effects on GDP.** The demographic implications of any immigration reform—namely, its future immigration levels and those immigrants' characteristics—are a key determinant of economic results. Larger changes to future immigration levels tend to have larger effects, particularly on GDP. For example, S.744 would have increased future immigration by more than any of this study's scenarios and therefore was projected to have a greater increase in GDP than any reform considered by this study.

Reform Scenarios

The study modeled five scenarios, each of which contained a different combination of reform policies. In order to illustrate a broad range of reform approaches, the study selected one reform component from each of four main areas of immigration policy: enforcement (through mandatory E-Verify), legalization, lesser-skilled temporary workers, and high-skill workers. The specific policies analyzed were drawn from a combination of current legislative proposals and reflect central ideas in the immigration reform debate.

Scenario 1: E-Verify Only. Under this scenario, E-Verify becomes mandatory for all new hires by 2020. By limiting job opportunities for unauthorized immigrants, mandatory E-Verify aims to reduce unauthorized immigration. Mandatory E-Verify has consistently been part of past legislative proposals, both comprehensive and stand-alone.

Scenario 2: E-Verify and Legalization. This scenario pairs mandatory E-Verify with a legalization program for unauthorized immigrants. The legalization program would allow unauthorized immigrants to obtain an indefinitely renewable "legalized" status and work authorization. After five years, legalized immigrants could apply for any existing green card category for which they are otherwise eligible; only DREAMers would receive "special" green cards outside the current system.

Scenario 3: E-Verify, Legalization, and Temporary Workers. In addition to E-Verify and legalization, two lesser-skilled temporary worker programs (agricultural and non-agricultural) would be created under this scenario. This scenario represents proposals to redirect future unauthorized immigration into legal channels to fill labor force needs.

Scenario 4: High-Skill Reform Only. Under this scenario, the only reform enacted is high-skilled immigration reform. High-skilled reform was included on its own because it is often thought to enjoy the most bipartisan support of all individual reform components. The scenario models the effects of several previous high-skilled visa legislative proposals, including: (1) increasing the number of H1B visas; (2) increasing the limit on employment-based green cards;(3) eliminating the family-based green card category for siblings of U.S. citizens; and (4) eliminating the Diversity Visa category. The latter two changes commonly appear in high-skilled reform bills as offsets to increases in employment-based green cards.

Scenario 5: All of the Above. All four components are enacted: mandatory E-Verify, legalization, new lesser-skilled temporary worker programs, and high-skill reform. Although this scenario includes a wide range of reforms, it is substantially different than "comprehensive" legislation previously introduced or considered by Congress.

Table 1. Reform Scenarios.

Scenario	E-Verify	Legalization	Temporary Workers	High-skill reform
1: E-Verify Only	🚫			
2: E-Verify & Legalization	🚫	🪪		
3: E-Verify, Legalization, & Temporary Workers	🚫	🪪	⛏	
4: High-Skill Only				🖥
5: All of the Above	🚫	🪪	⛏	🖥

Results in Brief
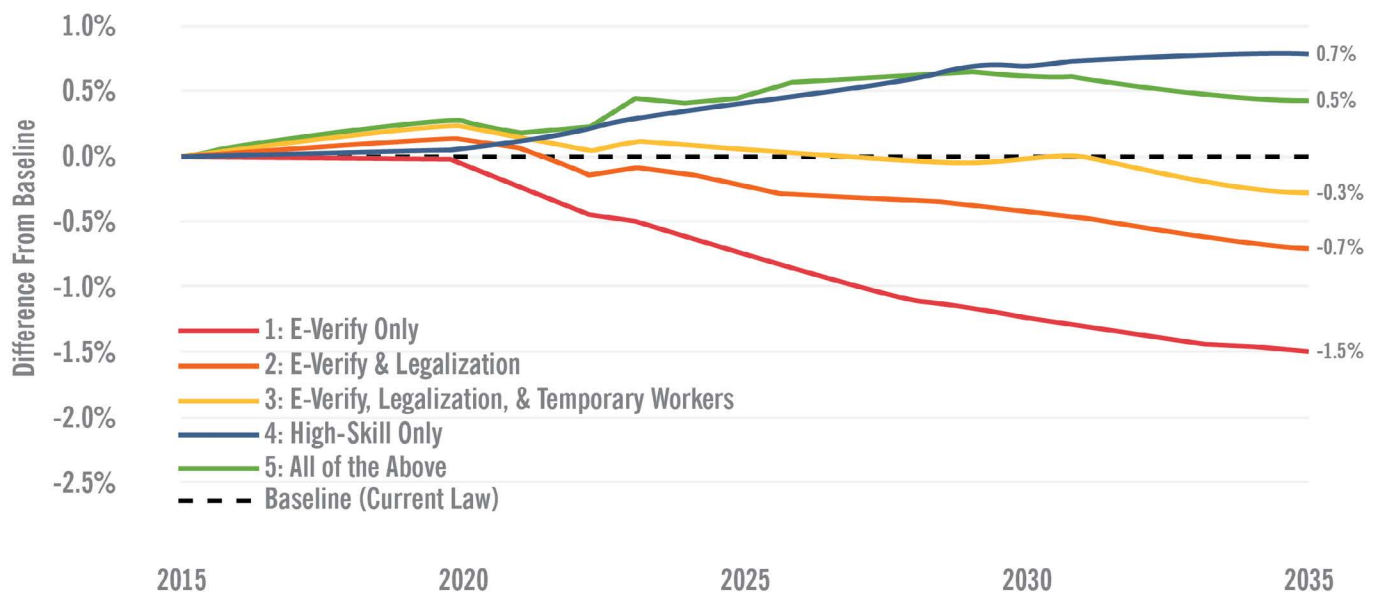
Economic Growth (GDP)

The study's first three scenarios—each of which takes a different approach to dealing with the unauthorized immigrant population—highlight the benefits of including policies that impact the economy in different ways. The E-Verify-only approach (Scenario 1), which would remove illegal workers from the economy without adding any new immigrants, had the most negative impact on real GDP. When enforcement was combined with a legalization program (Scenario 2), the negative effect on GDP was reduced. Because legalization occurs before new enforcement measures kick in, fewer people would have to leave the country. Most of the negative GDP effect in the combined legalization and enforcement approach (Scenario 2) occurs as a result of the assumption that fewer unauthorized immigrants would come in the future.

Expanded lesser-skilled temporary worker programs are often suggested as a way to counterbalance the loss of workers that immigration enforcement would cause. The addition of temporary workers in Scenario 3 mitigates E-Verify's remaining negative effects on economic growth until the 2030s. However,

the maximum number of workers who can enter the country is set in statute and does not vary with economic conditions. In the last five years of the study (2031–2035), GDP fell below the baseline because the number of new workers admitted was less than the number of unauthorized workers who would be "lost" to enforcement. Historically, decades have passed between legislative adjustments to the caps on U.S. immigration categories. These results suggest that if immigration caps are not revisited at regular intervals, they will eventually fall out of step with the economic climate and cause a drag on overall economic growth.

The approach (Scenario 5) that combines all of the reform components—E-Verify, legalization, temporary workers, and high-skill reform—had the most positive effects on GDP over the first 15 years. In the 2030s, however, while GDP was higher than the baseline, it was not as high as the high-skill-only approach. This occurs for the same reason as in Scenario 3, described above: eventually, there are not enough new temporary workers to counterbalance the loss of workers due to enforcement.

Figure 1. Summary of GDP Results.

Federal Budget

To calculate the effects on the federal budget, the model predicts how future revenue, expenditures, and net interest payments would change under each scenario's reform policies.

The scenario that included all four of the reform components (Scenario 5) produced the most budget savings, reducing cumulative budget deficits by $570 billion over the 20-year study window. These effects were strong and positive because the scenario combined two fiscally and economically sound subsets of policies: (1) increasing high-skilled immigration; and (2) addressing the unauthorized immigrant population through a balanced combination of enforcement, legalization, and expanded temporary worker programs. High-skill immigration creates budget savings because higher-skilled immigrants pay more in taxes due to their

higher wages, and they also generally use fewer benefits than lesser-skilled workers.

Comparing the first three scenarios highlights the benefits of balanced approaches to addressing the unauthorized immigrant population. Mandatory E-Verify would decrease tax revenue by causing millions of unauthorized immigrants to leave the economy, particularly those who work in "above-ground" jobs and pay federal taxes. Legalizing some of these workers would increase revenue due to higher wages and tax compliance, but once the legalized immigrants begin to earn green cards and gain access to federal benefits, they begin to create budgetary costs. Including temporary worker programs counterbalanced the budgetary costs of E-Verify and legalization, since temporary workers pay taxes but are ineligible for most federal benefits.

Table 2. Summary of Fiscal Results.

Scenario	Change to Federal Debt (billions of dollars)		
	2015 - 2025	2026 - 2035	2015 - 2035
1: E-Verify Only	+$40	+$60	+$110
2: E-Verify & Legalization	- $10	+ $160	+ $150
3: E-Verify, Legalization, & Temporary Workers	- $60	- $110	- $170
4: High-Skill Only	- $40	- $270	- $310
5: All of the Above	- $100	- $470	- $570

Wages

The model projected small wage impacts on existing workers from all of the proposed immigration policy changes, compared with the GDP and budget impacts. Throughout the study, existing workers' average wages never changed, positively or negatively, more than 0.29 percent. The average worker in the United States makes $47,000 per year, implying a maximum real wage effect of about $130 per worker per year. Changes in the labor supply were the most important influence on the results. The scenario that reduced the labor supply most (E-Verify only) had the largest positive effect on wages, while the only scenario to increase the labor supply (Scenario 4) had a negative impact.

Conclusion

Whether Congress passes several individual bills or a single comprehensive one, the effect on the economy will be a result of the specific policy changes enacted. This study shows that a sequential legislative approach can have a positive impact, but only if it intentionally balances the effects of different immigration policies. A step-by-step approach could increase GDP and produce budgetary savings if new enforcement measures are accompanied by policy changes that mitigate enforcement's negative effects, such as legalization and expanded legal immigration programs. However, the study also shows that an approach that focuses too heavily on enforcement, or that puts enforcement far ahead of other changes, would reduce GDP and increase the federal budget deficit.

Table 3: Summary of Wage Results.

| | Difference from current wages (annual average) | | | |
| | Percent | | Dollars | |
Scenario	2015 - 2025	2026 - 2035	2015 - 2025	2026 - 2035
1: E-Verify Only	+0.1%	+0.3%	+$60	+$130
2: E-Verify & Legalization	+0.1%	+0.2%	+ $40	+ $100
3: E-Verify, Legalization, & Temporary Workers	+0.0%	+0.1%	+ $20	+ $50
4: High-Skill Only	- 0.1%	- 0.2%	- $60	- $120
5: All of the Above	- 0.1%	- 0.1%	- $30	- $30

Founded in 2007 by former Senate Majority Leaders Howard Baker, Tom Daschle, Bob Dole, and George Mitchell, the Bipartisan Policy Center (BPC) is a non-profit organization that drives principled solutions through rigorous analysis, reasoned negotiation, and respectful dialogue. With projects in multiple issue areas, BPC combines politically balanced policymaking with strong, proactive advocacy and outreach.

bipartisanpolicy.org | 202-204-2400
1225 Eye Street NW, Suite 1000 | Washington, DC 20005

🐦 @BPC_Bipartisan
f   facebook.com/BipartisanPolicyCenter
📷 instagram.com/BPC_Bipartisan
•• flickr.com/BPC_Bipartisan

BPC Policy Areas

Economy

Energy

Financial Reform

Governance

Health

Housing

Immigration

National Security

BIPARTISAN POLICY CENTER