

---

# Three Ways Immigration Reform Would Make the Economy More Productive



A Fiscal Policy Institute Report  
[www.fiscalpolicy.org](http://www.fiscalpolicy.org)  
May 30, 2013

## **Acknowledgments**

The principal author of *Three Ways Immigration Reform Would Make the Economy More Productive* is David Dyssegaard Kallick, senior fellow of the Fiscal Policy Institute and director of FPI's Immigration Research Initiative. James Parrott, FPI's chief economist and deputy director, provided constant support and research advice. Frank Mauro, FPI's executive director, provided oversight to the project, and played a particularly important role in analyzing the tax data. Carolyn Boldiston, FPI's senior fiscal policy analyst, gave helpful feedback on the services provided to immigrants. Maya Ortiz, FPI Research Assistant, helped in analyzing and summarizing the econometric literature.

Fiscal Policy Institute's Immigration Research Initiative gratefully acknowledges the guidance of its expert advisory panel: Algernon Austin, director of the Race, Ethnicity, and the Economy program of the Economic Policy Institute; Muzaffar Chishti, director of the Migration Policy Institute's office at the New York University School of Law; Gregory DeFreitas, professor of economics and director of the labor studies program at Hofstra University; Maralyn Edid, Senior Extension Associate, Cornell University's ILR School; Héctor Figueroa, secretary-treasurer 32BJ of the Service Employees International Union, Nancy Foner, distinguished professor of sociology at Hunter College and the Graduate Center of the City University of New York; Philip Kasinitz, professor of Sociology, CUNY Graduate Center; Peter Kwong, professor of urban affairs, Hunter College; Ray Marshall, Former Secretary of Labor, Audre and Bernard Rapoport Centennial Chair in Economics and Public Affairs at the University of Texas, Austin, and chair of the AFL-CIO Immigration Task Force; John H. Mollenkopf, distinguished professor of Political Science and Sociology at the Graduate Center of the City University of New York and director of the Center for Urban Research; Jeffrey S. Passel, senior demographer, Pew Hispanic Center; Max J. Pfeffer, professor of Development Sociology at Cornell University; Rae Rosen, senior economist and assistant vice president, Federal Reserve Bank of New York; Heidi Shierholz, economist, Economic Policy Institute; Audrey Singer, senior fellow in the Metropolitan Policy Program at the Brookings Institution; and Roger Waldinger, distinguished professor of Sociology at UCLA.

In addition to our advisory panel, special thanks go first and foremost to Matt Gardner and the Institute on Taxation and Economic Policy, for work on the analysis of the state taxes paid by undocumented immigrants. FPI would also like to thank: Professor Katharine Donato, Vanderbilt University; Tanya Broder and Jenny Rejeske, National Immigration Law Center; Annette Bernhardt, National Employment Law Center; Jared Bernstein, Liz Schott, Michael Leachman, and Erica Williams, Center on Budget and Policy Priorities; Barbara Weiner, Empire Justice Center; and Daniel Costa, Economic Policy Institute.

The Fiscal Policy Institute ([www.fiscalspolicy.org](http://www.fiscalspolicy.org)) is an independent, nonpartisan, nonprofit research and education organization committed to improving public policies and private practices to better the economic and social conditions of all New Yorkers. Founded in 1991, FPI works to create a strong economy in which prosperity is broadly shared. FPI's Immigration Research Initiative looks at immigration issues in New York State, and around the country.

## **Table of Contents**

Executive Summary .....	1
Introduction.....	4
1. Reform Would Remove Barriers to Advancement for Currently Undocumented Immigrants.....	7
2. Reform Would Create a More Level Playing Field for Businesses and Workers .....	10
3. Reform Would Bring Taxes, Services, and Social Insurance into Better Alignment, with Both Added Costs and Added Revenues .....	13
Conclusion .....	16
Appendix A: A Review of the Literature on Legalization and Earnings.....	18
Appendix B: Modeling State and Local Tax Implications of Reform.....	21

## **Executive Summary**

One of the most hotly contested aspects of immigration reform is the proposal to give legal status to undocumented immigrants. Done properly, however, this should be a clear gain to productivity for the American economy, and for the economy of New York State.

The key to achieving these productivity gains is dramatically reducing the number of undocumented immigrants. Legalization by itself will not be enough. In addition, there must be enforcement that prevents people from working without authorization, and legal channels for future immigration. This paper assumes that legalization would be accompanied by measures of this kind.

There are three ways that productivity would be enhanced if all the workers in the country had legal status.

### *1. Immigration reform would remove barriers to advancement for currently undocumented immigrants.*

Today, 5 percent of the labor force in the United States, and the same share in New York State, are estimated to be undocumented immigrants.

Immigrants with legal status have consistently been shown to have higher earnings than those who are undocumented. Studies of the experience of legalization after the 1986 immigration reform bill, as well as more recent analyses of immigrant wages, have found that immigrants with legal status earn about 10 percent more than those without. Studies of the post-1986 period showed an even bigger gain in wages, with about 10 percent attributable to legal status above and beyond overall growth in wages, over the course of five years.

Part of the wage gain comes from a better match of workers to employers and fairer market wages. Immigrants with legal status would have a wider range of job options, and would be less susceptible to being taken advantage of by employers. The other part is due to improved skills: workers with a secure future in the United States and who can get jobs that require higher skill levels are more likely to invest in their own education, English language attainment, or vocational training. Both better job matching and increased skills increase overall productivity in the economy.

An even bigger earnings boost can be expected for DREAMers—young immigrants who were brought to the United States as children. For them, having legal status would mean many more would be able to go to college than currently do, which is good for their earning power, good for their employers, and good for future tax revenues. DREAMers who do not go to college would also gain significantly by having a better chance at the same jobs as their peers rather than being consigned to the limited range of jobs available to the undocumented.

Additionally, legalization would allow undocumented entrepreneurs to expand their businesses. Overall, immigrants are somewhat more likely than U.S.-born workers to be small business

owners—18 percent of small business owners are immigrants, compared to 16 percent of the labor force. (In New York, those figures are 29 percent and 27 percent.) We cannot determine how many small business owners are undocumented. Those who are, however, should find it significantly easier to expand. Among the palpable gains to these entrepreneurs would be: better access to bank loans, a greater ability to navigate government certifications and licenses, a greater degree of confidence in their future in the United States, and, not least, the ability to have a driver's license in all states.

*2. Reform would create a more level playing field for businesses and workers.*

When firms hire undocumented immigrants, they often pay them lower wages than other similarly qualified workers, and frequently evading payment for workers' compensation and unemployment insurance. This puts competing businesses that do not hire undocumented immigrants at a disadvantage. If all immigrants had legal status, firms would be nudged toward productive competition to provide the best goods and services at the best price, rather than unproductive competition around tax evasion and substandard wages.

A study by the Federal Reserve Bank of Atlanta demonstrates this effect, finding that with our current, dysfunctional immigration system, law-abiding firms in construction had a likelihood of closing that was 1.4 percentage points higher than those that hired undocumented immigrants; the rate was about 0.6 percentage points higher both in manufacturing and in leisure and hospitality. Undocumented immigrants are not the only ones being paid substandard wages, or being paid off the books or misclassified in ways that enable employers illegally to avoid payment into state workers' compensation or unemployment funds, however they are among the groups most likely to be subject to these abuses.

While some unscrupulous employers profit from the current situation, there is also a good deal of unproductive expense that immigration reform would eliminate. Firms that hire undocumented workers, for instance, may take measures to create a "legal buffer," such as hiring unnecessary subcontractors. And they may incur fines when caught. Both are nothing more than waste, and eliminating them would increase the overall productivity of the economy.

The elimination of waste also provides one part of the answer about where the money comes from to increase wages for legalized workers. Some of the money comes from the elimination of waste. Some comes from the increased skill level of immigrants, which expands the economic pie. And some comes from the profits of firms currently taking advantage of undocumented workers and avoiding tax payments—firms that after legalization would have to find different ways to be competitive or would have to cede way to businesses that can make a profit while abiding by labor laws.

Immigration reform would make a more level playing field not just for businesses, but also for workers. When undocumented immigrants are hired at low wages or in avoidance of tax rules, they can put downward pressure on wages for some U.S.-born workers. A legalization program would reduce this possibility by giving all workers legal status.

*3. Reform would bring taxes, services, and social insurance into better alignment.*

If everyone living in the United States had legal status it would make government systems function more effectively. It would mean more people paying income taxes, more people getting services, and more people paying into and covered by social insurance programs.

Currently, for example, roughly half of undocumented immigrants have payroll taxes withheld to pay for Social Security, generally without expectation of ever receiving Social Security benefits. Reform would mean many more people would pay into Social Security, and many more eventually would receive benefits—making the program function more effectively as the retirement insurance it is supposed to be. The same would be true for state unemployment and workers' compensation funds: reform would mean many more employers would pay into the funds, and many more people would be covered, improving the stability of the funds and the overall effectiveness of the systems.

The total of costs and revenues associated with reform—not just the alignment of programs and revenues—has often been a subject of debate. Despite some hyperbolic claims, the federal costs and revenues of immigration reform are generally likely to be on the same order of magnitude.

Past analysis by the Congressional Budget office has found that the immigration reform bill in 2007—with many different components than the current bill, but similar in regard to legalization of undocumented immigrants—showed that over a 10-year period the reform proposed then would have entailed an increase in federal direct spending of \$23 billion, with an increase in federal revenues of \$48 billion, and an increase in discretionary spending (primarily on stepped-up immigration enforcement) of \$43 billion.

At the state level, there are likely to be very modest overall impacts on taxes collected. In aggregate, for example, New York State might see a gain on the order of \$11 million per year. The average New York State and local taxes paid per household—after an assumed increase of 10 percent in income—would be about \$1,750, or about 7 percent of income for newly legalized immigrants.

The cost of K-12 education would not be affected by reform, since the Supreme Court ruled that all young people, even those who are undocumented, must be allowed access to public schools. If newly legalized immigrants are excluded from federally funded Medicaid, most states will not see added Medicaid costs, although some states—New York among them—would step in and provide state-funded Medicaid without the federal matching funds.

In general, by legalizing immigrants who are currently undocumented and preventing future flows of undocumented immigrants, immigration reform would bring improvements to federal, state and local governments social insurance programs. The result can be measured not so much in increased or decreased revenues to the treasury, but in a more properly functioning system of taxes, services, and social insurance.

## **Introduction**

Currently, the American economy is hindered by a broken immigration system. There are an estimated 11 million undocumented men, women and children living in the United States. Of these, some 8 million are adults in the labor force—about 5 percent of the country’s overall labor force.<sup>1</sup>

In New York State, there are an estimated 625,000 undocumented immigrant adults and children, with 450,000 undocumented adults in the labor force. Although New York has a considerably higher share of immigrant workers—both legal and undocumented—than the country (immigrants made up 27 percent of the civilian labor force in New York State and 16 percent in the United States, in 2011), the *undocumented* share of the labor force is about the same in New York as in the country: 5 percent.

Having a substantial number of unauthorized workers poses economic concerns for the undocumented immigrants themselves, for the businesses that compete against employers hiring undocumented immigrants, and for the government systems of tax collection, service provision, and social insurance.

Fixing the immigration system in a way that would ensure that everyone working here has legal permission to do so would address these concerns, making the state’s economy more productive.

### ***The Senate Bill***

One of the central goals of immigration reform is to rectify this situation by creating a context in which everyone working in the United States is working here legally.

The Border Security, Economic Opportunity, and Immigration Modernization Act currently being debated in Congress—the bill introduced by the bipartisan “gang of eight” U.S. Senators—aims to achieve this goal with several interconnected components.

The Senate bill, if passed by both houses of congress and signed by the president, would immediately allow most of the estimated 11 million undocumented immigrants to apply for Registered Provisional Immigrant (RPI) status.<sup>2</sup> Eligible applicants would pay a fine and application fee, pay back taxes, and pass a security clearance. Those who are approved would receive a Social Security number that would allow them to work legally in the United States. After several further steps and several years, people with RPI status would be able to apply for legal permanent resident status (a green card). Eventually, green card holders would be permitted to petition for citizenship.

To prevent undocumented immigrants from coming in the future, the bill would increase spending on border security and would enhance worksite enforcement. To make sure that all employees have legal status, the bill would require Social Security cards to be more secure, including biometric data. The bill would require employers to use E-Verify, a federal government system to match the data on a Social Security card with a national database.

Over 10 years, the bill would gradually clear the backlog of approximately 4 million family members of immigrants who have applied for visas (some are already in the United States, many are not).

The bill also revamps the numerous visa programs that would determine who, in the future, would be able to gain legal entry to the United States. Among the changes proposed is a shift in the balance of family and employment-based visas, elimination of diversity visas, and numerous major changes to temporary work visa (guest worker) programs for educated, higher-skilled (H-1B) and less-educated foreign workers (in the H-2A and H-2B programs for agricultural and other seasonal jobs). The bill includes provisions for the creation of a new large program—the W visa—for year-round jobs that provide foreign workers with a limited degree of job mobility. And, the bill would also establish a new independent bureau within the Department of Homeland Security to advise Congress about future visa levels and occupational labor shortages.

The Fiscal Policy Institute has some concerns about the economic consequences of expanding guest worker programs. In this paper, however, we do not address the potential economic effects of specific changes in the visa programs. We look just at the impact of creating a climate in which all immigrants in the country are here with legal status.

We also assume that this combination of reforms, if enacted, would do what they aim to do, and create a context in which all immigrants working in the United States are legally authorized to work.

One important aspect of enforcement that does not come under the rubric of immigration enforcement is preventing workers from being paid off the books. Making sure immigrants do not work off the books is the work of labor inspectors, from both the federal and state labor departments. As pressure is stepped up to make sure that employees have proper work authorization, a parallel effort must be made to make sure that workers are not simply hired off the books. A stepped-up system of federal and state labor law enforcement would seem like a natural and necessary complement to immigration reform, though this has received little attention in the immigration debates.

Finally, we would like to stress that at issue here is the legal status of immigrants who are already in the United States. These are immigrants who are already in this country. Their labor force participation rates are as high as, or somewhat higher than, the overall average. These are people who are already working in this country, they are not a new group being added to the labor market.

A separate analysis would be needed to show what the effects of changes to the different visa programs would be, and a comparison of the number of people who could come legally under the new visas to the number who have come as undocumented immigrant under the current broken immigration system.

Below, we examine three ways that a labor market in which all workers are legally authorized to work would make our economy healthier and more productive: 1) Remove barriers to



*Three Ways Immigration Reform Would Make the Economy More Productive*

advancement for currently undocumented immigrants, 2) Create a more level playing field for businesses and workers, 3) Bring taxes, services, and social insurance into better alignment.

## **1. Reform would remove barriers to advancement for currently undocumented immigrants**

Legalization of undocumented immigrants can be expected to boost their earnings and career opportunities, as well as their economic output—giving these newly legalized immigrants more spending power and generating more tax revenues.

### ***Legal status means higher wages for workers***

The economic literature gives us considerable insight into how legalization works to improve the wages of newly legalized immigrants.

Studies have consistently shown that *immigrants with legal status have higher earnings than those without*. The majority of studies find that immigrants with legal status earn on the order of 10 percent more than undocumented workers even after accounting for other factors such as overall gains in wages of other workers or differences in education levels.

The main reasons for these wage gains are:

- *Immigrants with legal status have more rights and more options.* Immigrants with legal status are less likely to be taken advantage of by employers, and are freer to move to the job that's best for them.
- *Immigrants with legal status see a higher return on human capital, and are thus also more likely to invest in their own advancement.* Legal immigrants who speak English well, or who have training in a particular job skill, are paid accordingly better. For undocumented immigrants, this is far less likely to be the case—even those with better English or higher levels of educational attainment tend to see little advantage in their wages. Legal status thus also provides an incentive for immigrants to invest in their own skill development.

There are generally two ways economists have investigated this question.

The first is based on data about immigrants who gained legal status under the Immigration Reform and Control Act of 1986 (IRCA). In that reform, some 1.6 million undocumented immigrants were granted legal status, and a survey was undertaken that included questions about their wages before and after they had legal status. The results showed an increase in earnings, between 1987 and 1992, of 15 percent (see Smith, Kramer and Singer, 1996). A later econometric analysis attempted to isolate the part of that wage gain that was specifically due to having legal status by using a comparison group from the general population, and determined that the specific gain due to legal status was 6 percent (see Kossoudji and Cobb-Clark, 2002).

The second approach to estimating the difference that legal status makes is to use a single longitudinal data set, for example the Survey of Income and Program Participation (SIPP), and to

impute the legal status of respondents. That approach allowed Hall, Greenman, and Farkas to conclude that Mexican men earned 8 percent more if they had legal status than if they did not, and Mexican women earned 4 percent more, even after correcting for differences in human capital.

See Appendix A for a more detailed explanation of the research methodologies and conclusions, as well as a rubric showing a wider range of papers on this subject.

***DREAMers would see a big barrier removed to realizing their full career potential***

The most striking benefit of legal status is to “DREAMers,” undocumented immigrants who were brought to the United States as children. There are estimated to be about 2 million potential DREAM Act beneficiaries in the United States, about 135,000 of them in New York State.<sup>3</sup> Removing the barriers that prevent many of these young people from reaching their full potential.

The difference is biggest for those who would go to college if they had legal status, and who would not if they did not. In the United States, the median earnings of immigrants with a high school degree is \$28,000/year. For immigrants with a 2-year college degree, median annual earnings are almost half again as much, \$40,000/year, and for those with a 4-year college degree it is nearly double, \$55,000/year.<sup>4</sup>

In New York State, immigrants with a high school degree have median earnings of \$30,000/year; the median for those with a 2-year degree is \$41,000 (a 37 percent premium), and for those with a 4-year degree is it \$56,000 (an 87 percent premium over those with a high school degree).

Immigration reform would also give these DREAMers legal status to work, making it likely that their wage gains would be similar to those of their peers, with a corresponding increase in purchasing power and improvement in the business climate due to a better-educated labor force.

For DREAMers who do not go to college, however, the difference could still be expected to be significant. Having legal permission to work, and having the ability to get a driver’s license, would make a big difference for all currently undocumented workers, but the difference might be particularly significant for those undocumented immigrants who grew up in the United States, often without even knowing until their teenage years that they were undocumented.

***Immigrant businesses owners would have access to more options***

It is difficult to say how many undocumented immigrants are entrepreneurs today, or how many more there might be if legalization made starting a business easier. We do know, however, that immigrants in general are somewhat more likely than U.S.-born workers to be business owners.

Nationally, 18 percent of small business owners are immigrants, compared to their 16 percent share of the labor force. In New York State, immigrants represent 29 percent of all small

business owners in New York State, a share that is even higher than their 27 percent share of the labor force.<sup>5</sup>

If undocumented immigrants had legal status, some small businesses would likely expand, and others might start. Making it possible for undocumented immigrants to gain legal status would remove numerous barriers to business startups and growth. Among the palpable gains of legalization for entrepreneurs are: the ability to have a driver's license, better access to bank loans, a greater ability to navigate government certifications and licenses, and a greater degree of confidence in their future in the United States.

At the same time, some immigrants may be running informal small businesses out of a lack of other options—their legal status may prevent them from finding a job in their field of expertise, or to land a steady job with benefits. Legal status would allow more immigrants in this position to move into a formal job: someone who is running a food cart might get a job as a chef, for example, someone who set up shop to sell electronics might be able to get a job as an engineer.

## **2. Reform would create a more level playing field**

Immigration reform would create a more level playing field both for businesses and for workers, as businesses would only be able to hire workers with legal authorization to work.

### ***Productive rather than unproductive competition***

Currently, some businesses hire undocumented immigrants—often paying them lower wages than other similarly qualified workers, and frequently evading payment for workers' compensation and unemployment insurance. This puts competing businesses that do not hire undocumented immigrants at a disadvantage. Immigration reform would improve this situation if it results in a context in which all immigrants in the labor force have legal status.

A study from the Federal Reserve Bank of Atlanta demonstrated this effect. Using confidential data that allowed researchers to identify a reasonable sample of firms in Georgia that hired undocumented immigrants and those that did not, the study found that firms that did not hire undocumented immigrants were at a considerable competitive disadvantage compared to those that did. Law-abiding firms had a likelihood of closing that was 1.4 percentage points higher than those that hired undocumented immigrants in construction, and 0.6 percentage points higher in both manufacturing and leisure and hospitality. Since about 2 percent of firms on average close in any sector, these percentage point differences are quite significant, in the case of construction nearly doubling the rate of business failure for firms that are abiding by the law.<sup>6</sup>

There are at least two ways that firms playing by the rules are at a competitive disadvantage in relation to those in the same industry that are evading the law. First, undocumented immigrants are sometimes paid below-market wages, and even sometimes illegally low wages, e.g., not paid the legal minimum wage or not paid for overtime. In addition, employers may avoid paying payroll taxes for Social Security and Medicare, or paying into the state's unemployment insurance and workers' compensation funds if they pay workers off the books, or if they misclassify workers as independent contractors when they are in fact employees. Not paying payroll taxes or unemployment insurance and workers' compensation premiums can mean as much as 25-30 percent of wages, and a significant portion of overall costs in a labor-intensive industry.

Undocumented immigrants are not the only ones being paid off the books or being misclassified. Undocumented immigrants are, however, disproportionately likely to be put in this position. A recent study by the National Employment Law Center found that in three major cities, among low-wage workers, 74 percent of undocumented workers did not receive a pay stubs in the last pay period, as was the case for 41 percent of documented immigrants and 38 percent of U.S.-born workers.<sup>7</sup> After legalization, employers would be more likely to pay these immigrants on the books, and the employees themselves as well as labor department officials would be able to demand that they do so.

Immigration reform would help shift this situation in which firms are competing on the basis of saving money by breaking the law. Instead, it would push firms toward a more traditional,

productive kind of competition for greater value to customers based on the same rules of the game.

At the same time, federal and state labor departments both would do well to increase the level of labor inspection as a natural complement to immigration reform. This would help ensure that undocumented and other workers don't simply get pushed into off-the-books employment as verification of work authorization increases.

### ***Reducing waste***

Because it is illegal knowingly to hire undocumented immigrants, employers that do so may wind up paying fines, or engaging in behavior to protect themselves from being caught. These are utterly unproductive business expenses.

One prevalent type of wasteful business expense is noted in a 1999 study by Julie Phillips and Douglas Massey, who find growing evidence that employers turned to subcontracting as a way to hire undocumented workers, since neither the subcontractor nor the workers are then technically employees of the firm. "In return for providing this legal buffer," the authors suggest, "the subcontractor retains a portion of the workers' wages as payment."<sup>8</sup>

While some employers may find that they can save money by hiring undocumented workers and paying them substandard wages, there is also a good deal of waste in this system. Wages may be lower, but not all of the gain goes to either the employer or the customer—some of it may be siphoned off by an otherwise unnecessary third party. Immigration reform is not likely to stop the practice of unnecessary subcontracting, but it should help reduce the pressure on employers to use subcontracting to protect themselves from immigration violations.

### ***Paying for higher wages, in part with higher productivity***

Section 1 of this report showed that immigration reform would result in higher wages for newly legalized immigrants. Where would the money come from to pay these higher wages?

Some of it would come from the increased skill level of legalized immigrants, who if legalized would have a greater incentive to improve their English and raise their level of educational attainment. These more highly skilled workers also would be more productive. Similarly, workers who are better matched to their jobs—because of greater labor market mobility—would be more productive.

Some of it would come from eliminated waste: while there is little doubt that firms hiring undocumented immigrants and paying substandard wages achieve savings in wages, in so doing they also incur some costs—in addition to shifting other costs onto taxpayers, or onto other employers who, for example, do pay into the state's workers' compensation and unemployment insurance funds. The expense of fines, of unnecessary subcontracting, of high turnover and the like may be "worth it" to employers who can save by paying substandard wages. But, if those

employers were required to hire only legal workers, while their overall costs might go up some, the increases would likely be offset at least to some extent by reduced waste or increased productivity.

Finally, some of the higher wages would come from rebalancing the relative position of workers and employers. If employers are taking advantage of undocumented immigrants by paying them lower wages, they may have to pay higher wages if those workers gain legal status. For employers who rely on paying substandard wages and avoiding workers compensation and unemployment insurance payments, this might result in somewhat lower profits or higher prices. If firms were not able to be competitive on the basis of paying legal workers, it might result in some companies going out of business as others come in to take their place.

### ***A level playing field for U.S.-born workers and legal immigrants***

Legalization of undocumented immigrants, if paired with enforcement that prevents new flows of undocumented immigrants, can be expected to have only positive impacts on U.S.-born workers and legal immigrants.

The wage impact of immigration in general, and undocumented immigrants in particular, has been a longstanding topic of interest to researchers. A recent synthetic analysis and updating of the literature by Heidi Shierholz of the Economic Policy Institute shows that few U.S.-born workers are negatively affected by immigration. Overall, there is a modest positive impact on the wages of U.S.-born workers. Those who are most affected are immigrants who are already in the United States—for whom new immigrants are most substitutable. To a much more modest degree, there is also a discernable negative impact for U.S.-born men with a high school degree or less.<sup>9</sup>

There is little doubt, however, that in some instances undocumented immigrants are used by employers to put downward pressure on wages for all of a firm's employees. Reducing the ability of employers to do this would make the overall benefit of immigration to U.S.-born workers even greater, and would reduce the pressure on wages for those workers who are negatively impacted by immigration. Legalization of undocumented immigrants would create a more level playing field for all workers, taking away the potential for employers to use legal status to reduce wages for one group.<sup>10</sup>

It is important to note as well that the immigrants in question are already in the United States, and they are already working. Perhaps unsurprisingly, since undocumented immigrants have little to fall back on if they are out of work, labor force participation rates among undocumented immigrants are higher for undocumented immigrants than for U.S.-born workers or legal immigrants.<sup>11</sup> If these workers were to gain legal status, they would not add to the size of the U.S. labor force, but they would have more bargaining power, and thus would be less likely to be pitted against other workers to lower wages.

### **3. Reform would bring taxes, services, and social insurance into better alignment**

Government systems function more effectively if everyone in the country had legal status: more people would pay income taxes, more people would get needed services, and more people would pay into and be covered by social insurance programs.

**Social Security**, for example, would be brought into more proper alignment. Currently, roughly half of undocumented immigrants have payroll taxes withheld with virtually no expectation of ever collecting benefits.<sup>12</sup> This is a net “plus” to the federal government—taxes are being collected but the benefits are not being paid. It is, however, a fundamental misalignment in the way Social Security is designed to work.

The current Senate bill would mean that all immigrants who gain RPI status would be issued a Social Security number. Payroll taxes would thus be withheld for far more workers, adding revenues to the system. At the same time, however, once they attain legal status, those paying into the system would—once they retire—be entitled to benefits based on those payments. The case for **Medicare** would be similar, although there are more restrictions for eligibility to receive services.

At the state level, immigration reform would help bring state **unemployment insurance and worker’s compensation** into better alignment, with considerable added funds going into the system, and correspondingly more people covered. The benefits are not only to the individuals covered, but also to the system as a whole: insurance works best when there is a broad pool of people participating. It is an added problem when some employers pay into the system and others evade their responsibility: this not only weakens the insurance systems but also puts those who are abiding by the law at a competitive disadvantage.

Ensuring that programs serve the purposes they are intended to serve, and have the revenue streams intended to support them, is an important goal for federal, state and local governments.

#### ***Costs and revenues***

The total of costs and revenues associated with reform—not just the alignment of programs and revenues—has often been a subject of debate. Despite some hyperbolic claims (see, for example, the report of trillions of dollars in added costs by the Heritage Foundation<sup>13</sup>), the federal costs and revenues of immigration reform are generally likely to be on the same order of magnitude. The Congressional Budget Office (CBO) is expected to score the current Senate bill. The CBO has scored comprehensive immigration reform bills in the past, and has already expressed its intention to use a similar analysis in the future.<sup>14</sup>

In 2007, the Congressional Budget Office (CBO) estimated the costs and revenues to the federal government that would be associated with the Comprehensive Immigration Reform bill being debated in the Senate at that time—not only the affects of legalizing undocumented immigrants, but also the affects of new flows of immigrants. The CBO found that over a 10-year period,



federal direct spending (primarily on refundable income tax credits and Medicaid) would increase by \$23 billion, and federal revenues (including Social Security taxes collected) would increase by \$48 billion. It also estimated an increase in discretionary spending (primarily stepped-up immigration enforcement) of \$43 billion. The CBO concluded that the legislation then under consideration “would exert a relatively small net effect on the federal budget balance over the next two decades, since additional expenditures would be mostly offset by additional revenues.”<sup>15</sup>

The Congressional Budget Office is expected to provide an in-depth review of federal costs and revenues implied by the new Senate bill once the markup has been completed.

At the state and local level, reform would also bring programs into better alignment, though some costs can be expected in some states.

**K-12 Education**, the main cost discussed in many papers looking at the fiscal impact of immigrants, would be unaffected by immigration reform. Most children of undocumented immigrants are U.S. citizens by birth, and even those who are undocumented already are able to attend public school.

The Senate bill excludes immigrants granted Registered Provisional Immigrant status from **Medicaid** and subsidies for buying insurance under the **Affordable Care Act**. In most states, that will preclude newly legalized immigrants from adding to the cost of Medicaid. In some states, New York among them, newly legalized immigrants would qualify for state-funded Medicaid, without any federal matching funds.

While there are costs to providing health insurance, there are also costs in *not* providing health insurance. If RPIs do not have health insurance, health care providers and state uncompensated care funds would wind up bearing some of the cost of providing emergency care to people who are uninsured.

Those RPIs who eventually—generally after 10 years or more—gain legal permanent resident status would at that point be eligible to use the insurance exchange. They would still, however, be excluded for five more years from federally funded Medicaid.

Because the **Temporary Assistance for Needy Families** (TANF) annual block grants to states are fixed amounts that have not changed since 1997 (they are based on federal Aid to Families with Dependent Children (AFDC) spending in the state prior to the 1996 federal welfare reform), any upcoming immigration reform would not affect how much New York or other states gets from the federal government to cover the cost of assistance to needy families. People with RPI status would not be eligible for TANF unless and until they gain legal permanent resident status, and then they would be excluded for an additional five years. However, if they meet other criteria they would be eligible for New York’s state-funded safety net program, so more people might be eligible and the same amount of funding.<sup>16</sup>

Along with these expected costs, immigration reform would bring newly legalized immigrants into compliance with state tax laws, bringing added revenues.

In order to estimate the state and local tax implications for legalization, the Fiscal Policy Institute worked with the Institute on Taxation and Economic Policy (ITEP) to model how much undocumented immigrants might be paying in state and local taxes today, and how much they might be likely to pay if they were granted legal status. Legal status would mean that more undocumented immigrants would pay income tax (the current estimate is that about half already do), and that they would pay taxes of all kinds on a higher income.

For the purpose of this modeling, we assumed a 10 percent gain in income, in line with the findings from past legalization experience as outlined in Section 1 of this report. Because we did not have a strong basis for estimating changes in home ownership, we assumed very conservatively that no undocumented immigrants own homes today, and none will after gaining legal status. This is a highly conservative assumption; it is clear that there are some undocumented immigrants who own homes already, and that legalization would make it far easier to get bank loans and in other ways facilitate home purchasing.

Currently, average state and local taxes paid per household are estimated to be about \$1,700 in state and local taxes. After legalization, the average taxes paid per family would be slightly higher, about \$1,750—slightly higher sales and property taxes, and slightly lower personal income taxes as we assume that newly legalized immigrants would qualify for state and local Earned Income Tax Credits. Newly legalized immigrants would thus be paying 7 percent of their total income in state and local taxes.

In aggregate, undocumented households are estimated currently to pay about \$487 million in combined state and local sales taxes. Immigration reform is projected to lift that total a little, by about \$11 million, with higher sales and property tax payments offsetting slightly lower income tax payments as newly legalized immigrants earn higher wages but also become eligible, we assume, for state and local Earned Income Tax Credits.

This is, again, is a system that would be brought into alignment. Everyone would file income tax returns. Everyone would get services. And social insurance would be cover more people, while the corresponding funding pools would be paid into by a broader base.

## **Conclusion**

The Senate immigration reform bill aims, among other goals, to ensure that all people working in the United States are working here legally—both today and in the future.

Achieving this goal would lead to significant improvements in the way the economy functions, including numerous benefits.

Currently, undocumented workers are held back by their legal status in a number of ways. They are often paid less than their counterparts with similar skills. And, given their uncertain status, as well as weak return on investment in their skills, they are less likely to invest in their own advancement. Legalization may not radically transform the position of these workers, but it is likely to increase their earnings beyond what they otherwise might have increased on the order of about ten percent over a period of about five years.

An even bigger boost can be expected for DREAMers—those immigrants who were brought to the United States as children and by gaining legal status would be able to follow the course of the other young people they grew up with, including being able to drive, having a full range of work options, and having better access to funding for attending college. This would be good for the DREAMers, but it would also be good for the overall business climate, since a more highly educated workforce also means higher productivity in the economy.

Reform would be a benefit to undocumented immigrants who own businesses, who would find it easier to apply for incorporation and other permits, could more readily get bank loans, and in general could be freer to expand their businesses.

With both businesses and workers on a more level playing field, the economy would be more productive. Today, the fact that some firms hire undocumented immigrants and others don't results in unfair and unproductive competition; immigration reform would eliminate this differential and result in a level field for all businesses. Even for companies that hire undocumented immigrants, and thereby save some in wages and taxes, the change would not be as costly as might be imagined. These firms currently pay some cost—in the form of unnecessary subcontracting, potential fines, and so on—that is pure waste. Eliminating this waste from the economy would have a positive overall impact. U.S.-born workers, too, would gain, particularly those at in the lowest-wage jobs. Legalization would make it harder for employers to take advantage of this group of immigrant workers, and would thus relieve some pressure on the U.S.-born employees working in the same firm or industry.

Finally, immigration reform would help bring our systems of taxation, service delivery, and social insurance into better alignment. For example, at the state level, unemployment insurance and worker's compensation funds would have a broader basis, with more employers paying in, and more workers eligible. Similarly, at the federal level, Social Security would have more workers paying into the system, as well as more receiving benefits.

*Three Ways Immigration Reform Would Make the Economy More Productive*

There are other aspects to the immigration bill being considered, but this part—making sure that immigrants who are in the country are all legally authorized to work—would be clearly good for the economy.

## **Appendix A: A Review of the Literature on Legalization and Earnings**

A series of studies allow us to draw the conclusion that the earnings of undocumented immigrant earnings would increase if they gained legal status. See the matrix below for a listing of some key studies.

Most straightforward is a report published in 1996 by the Department of Labor—produced by Shirley J. Smith, Roger G. Kramer, and Audrey Singer—which directly measures the wages of immigrants who gained legal status as a result of the Immigration Reform and Control Act (IRCA) of 1986. As part of IRCA, a Legalized Population Survey was conducted, collecting data in 1989 (asking about wages going back to 1987) and in 1992. The study reports an increase in inflation-adjusted wages of 15 percent over this 5-year period for immigrants who gained legal status.

In 2002, Sherrie A. Kossoudji and Deborah A. Cobb-Clark refined the methodology by taking into account changes in the overall economy over the five-year period discussed above, 1987 to 1992. In particular, Kossoudji and Cobb-Clark find that the return on human capital—English language ability, work experience, and education—grows when workers become legal participants in the workforce. To isolate the effects of legalization, Kossoudji and Cobb-Clark compare a group of *newly legalized workers* (young men from Mexico and Central America, using the Legalized Population Survey) with *workers in general* (young Latino men—U.S.-born, legal immigrants, and undocumented immigrants, using the National Longitudinal Survey of Youth). They note that wages for the legalized sample increase by 6 percent more than for the general sample, after correcting for the changes in returns to skill level. In addition, Kossoudji and Cobb-Clark find that if undocumented immigrants had had legal status throughout the period studied—from 1987 to 1992—their earnings would have been 24 percent higher than they actually were by 1992. These higher earnings would have been the result of a higher return on their human capital; that is, they would have been paid for the level of skills and experience they had.

In 2011, Catalina Amuendo-Dorantes, and Cynthia Bansak undertake a similar analysis, but include a gender analysis, and they modify the above methodology modestly by using for the comparison group U.S.-born Latinos and Latinas, in order to ensure that there are no undocumented workers in the comparison group. Their finding is that the 5-year wage gain is 9 percent more for immigrant Latino men who gain legal status than for U.S.-born Latinos, and 19 percent more for Latina women.

Taking a different approach, Matthew Hall, Emily Greenman and George Farkas in 2010 used the Survey of Income and Program Participation (SIPP) to compare the wages of undocumented immigrants to the wages of legal immigrants. Using this data set, the authors have to impute legal status, based on factors such as participation in public programs and reported visa status (the SIPP does not ask about legal status, but it does ask whether a person entered the United States with legal Permanent Resident Status, and whether that person's status has been adjusted to permanent, among other clues to legal status). The authors look at longitudinal data from 1996 to 1999 and then again from 2001 to 2003. They find that legally present Mexican men earn 17 percent more than undocumented men—8 percent after accounting for human capital factors

such as year of entry, educational attainment, and English language ability. And women with legal status earn 9 percent more overall, and 4 percent more after controlling for differences in human capital.

Only one study finds no significant difference between immigrants with legal status and those without—a 2013 study by Magnus Lofstrom, Laura Hill, and Joseph Hayes. The data they use, however, only allows them to look at a 3-14 month period after immigrants receive a green card. Thus, they conclude that there is no measurable difference for workers “at least in the short run.” It is also worth noting that they are comparing on the one hand people who went from being undocumented to having legal status, and on the other hand people who went from a temporary visa to having legal permanent resident status. While the move from undocumented to LPR is larger, the move from a temporary visa to a permanent visa might also be expected to be a gain for workers.

*See table on the following page for a schematic overview of the findings.*

## Three Ways Immigration Reform Would Make the Economy More Productive

Review of Studies of the Economic Effects of Granting Legal Status and Citizenship to Undocumented Immigrants

Author(s)	Title and publication info.	Change in earnings for workers (men and women)	Change in earnings for men	Change in earnings for women	Methodology and data
Robert Lynch and Patrick Oakford	"The Economic Effects of Granting Legal Status and Citizenship to Undocumented Immigrants," Center for American Progress, March 20, 2013.	<b>15%</b> added wages after five years of having legal status and an additional <b>10%</b> due to citizenship, for a potential total of <b>25%</b> in added earnings.			Uses the 1996 Labor Department study (see below, Smith, Kramer, and Singer) as the best and fullest study looking at the effects of legalization, and takes their conclusion of a 15% boost in income after five years due to legalization. This analysis then looks at 2011 CPS data to compare immigrants who are U.S. citizens and non-citizen immigrants (a group that includes both undocumented and legal immigrants). A regression accounts for numerous measurable factors and still shows a 16% boost in earnings due to citizenship. Based on several assumptions, the report concludes that 10% of this difference is the boost from gaining citizenship status.
Magnus Lofstrom, Laura Hill, and Joseph Hayes	"Wage and Mobility Effects of Legalization: Evidence from the New Immigrant Survey," <i>Journal of Regional Science</i> , vol. 53, no. 1, 2013.	Finds that undocumented immigrants gaining legal status see minimal if any gains in earnings due to legal status in the short term, though they do see earnings due to increases in educational attainment.	The study finds minimal if any gains due simply to legalization, but a <b>13%</b> difference due to education and other human capital differences for both border crossers and visa overstayers compared to the continuously legal men.	The study finds minimal if any gains due simply to legalization, but a <b>4% and 6%</b> difference for border crossers and visa overstayers, respectively, due to education and other human capital differences compared to the continuously legal women.	This is the only study reviewed that sees no measurable difference for workers due to gaining legal status, "at least in the short run," that is between 3 and 14 months after receiving green cards. The study does show a gain based on increases in human capital, as other studies also find. Data are from the New Immigrant Survey to compare people who were unauthorized when they first worked in the U.S. but gained legal status in 2003 to those who were legally permitted to work before 2003 but gained Legal Permanent Resident (LPR) status in 2003, with data from the 2000 Census used to impute occupational earnings.
Manuel Pastor and Justin Scoggins	"Citizen Gain: The Economic Benefits of Naturalization for Immigrants and the Economy," Center for the Study of Immigrant Integration, University of Southern California, 2012.	Immigrants who are U.S. citizens earned between <b>8 and 11%</b> more than those who have legal status but are not U.S. citizens, even after controlling for relevant factors that might affect wages.			Uses 2010 American Community Survey to analyze the link between citizenship attainment and individual immigrant's earnings. The sample is about 183,000, which includes only working age immigrants who arrive before 2005 and earned income between \$400 and \$292,000 in 2010.
Catalina Amuedo-Dorantes and Cynthia Bansak	"The Impact of Amnesty on Labor Market Outcomes: A Panel Study Using the Legalized Population Survey," <i>Industrial Relations</i> , Vol. 50, No. 3 (July 2011)		The authors revisit a study done in 2007 and recalculate the wage gains using a OLS regression and found that the wage growth was slightly higher for men and lower for female workers. Their new estimates show that wages grew <b>9%</b> more for men who had been legalized under IRCA than the gains over 1987-1992 period of U.S.-born Hispanics unaffected by the legalization.	Between 1987 and 1992, wages grew <b>19% more</b> for women who had been legalized under IRCA than the gains over the same period of U.S.-born Hispanics unaffected by the legalization.	Data collected in 1989 and 1992 in the Legalized Population Survey compared with data about U.S.-born Hispanics in the same age range from the 1987 and 1992 from the National Longitudinal Survey (NLSY79). The NLSY79 has similar ethnicity, age, family size, and labor market experience to the LPS sample. The comparison group allows the authors to isolate the impact of macroeconomics conditions concurrent with IRCA's amnesty program that may have affected the unemployment or employment rates of the newly legalized workers.
Matthew Hall, Emily Greenman, and George Farkas	"Legal Status and Wage Disparities for Mexican Immigrants," <i>Social Forces</i> , vol. 89, no. 2, December 2010.		Mexican immigrant men who are documented have gross earnings that are <b>17% more</b> than undocumented Mexican men, and <b>8% more</b> after controlling for human capital and occupation. The study also found returns to human capital to be substantially higher for legal immigrants than for undocumented.	Mexican immigrant women who are documented have gross earnings that are <b>9% more</b> than undocumented Mexican men, and <b>4% more</b> after controlling for human capital and occupation. The study also found returns to human capital to be substantially higher for legal immigrants than for undocumented.	Uses the Survey of Income and Program Participation (SIPP) from longitudinal data for 1996-99 and for 2001-2003. The study then imputes legal status for Mexican immigrants, and uses growth curves to calculate trajectories for documented Mexican immigrants, undocumented Mexican immigrants, U.S.-born Mexican Americans, and native non-Latino whites. Imputation of legal status in the SIPP data is based on questions about immigrant visa status and participation in public programs. Legalization would mean that formerly undocumented workers would be freer to move to new occupations, and would get higher return on human capital, making the implication of the gross findings relevant as well as the findings correcting for these factors.
Catalina Amuedo-Dorantes, Cynthia Bansak, and Steven Raphael	"Gender Differences in the Labor Market: Impact of IRCA's Amnesty Provisions," <i>The American Economic Review</i> , Vol. 97, No. 2 2007.		Between 1987 and 1992, hourly wages grew <b>9% more</b> for men who had been legalized under IRCA than the gains over the same period of U.S.-born Hispanics unaffected by the legalization.	Between 1987 and 1992, hourly wages grew <b>21%</b> more for women who had been legalized under IRCA than the gains over the same period of U.S.-born Hispanics unaffected by the legalization.	Data from 1987 and 1992 in the Legalized Population Survey compared with data about U.S.-born Hispanics in the same age range from the 1987 and 1992 from the National Longitudinal Survey (NLSY79). The NLSY79 has similar family size, work experience, gender composition, and geographic composition to the LPS sample. The intent of having a comparison group is to isolate the effect of legalization by taking into account the macroeconomics changes in the economy that affect similarly positioned workers.
Sherrie A. Kossoudji and Deborah A. Cobb-Clark	"Coming Out of the Shadows: Learning about Legal Status and Wages from the Legalized Population," <i>Journal of Labor Economics</i> 20, 2002.		After legalization, these workers encounter the same wage determinants as other workers, and their human capital begins to be rewarded accordingly. Legalization raised the wages of men gaining legal status under IRCA by <b>6%</b> more than the comparison group between 1987/88 and 1992 and "this appears to result primarily from changes in returns to human capital." In addition, the study finds that, had undocumented immigrants had legal status from their arrival pre-1982 to the end of the study period in 1992, their wages would have been increased by <b>24%</b> over the actual level.		This study uses a subset of the merged data collected in 1989 and 1992, from the Legalized Population Survey of Mexican and Central American men (sample size of 1,375) compared with panel data from native and immigrants male Hispanics from the National Longitudinal Survey (sample size of 792). The authors analyze both data sets in three time periods: entry in the U.S. labor markets (1976-85), ongoing unauthorized work (1987-1988) and ongoing legal work (1992). The comparison group is used to isolate the effect of legalization by taking into account macroeconomic changes in the economy that also affected workers of similar ethnic background and cultural experience.
Sherrie A. Kossoudji and Deborah A. Cobb-Clark	"IRCA's Impact on the Occupational Concentration and Mobility of Newly-Legalized Mexican Men," <i>Journal of Population Economics</i> 13, 2000.		<b>39%</b> of Mexican men who received legal status under IRCA had moved on to higher-paying occupations by 1992.		Legalized Population Survey data collected in 1989 and 1992
Julie A. Phillips and Douglas S. Massey	"The New Labor Market: Immigrants and Wages After IRCA," <i>Demography</i> , vol. 36, no. 2, May 1999.		After IRCA, undocumented Mexican immigrant men earned <b>22%</b> less in nonagricultural work.		Data from the Mexican Migration Project, from 1987 to 1997, together with several other data sources. As of 1997 the data surveys 39 communities and 7,143 households in Mexico as well as 456 Mexican immigrant households in the United States. Analysis controls for human capital, social capital, age, and other factors.
Francisco L. Rivera-Batiz	"Undocumented Workers in the Labor Market: An Analysis of the Earning of Legal and Illegal Mexican Immigrants in the United States," <i>Journal of Population Economics</i> 12, 1999.		Having legal status resulted in a wage increase of <b>15%</b> for Mexican men legalized under IRCA.	Having legal status resulted in a wage increase <b>21%</b> for Mexican women legalized under IRCA.	Data on 1987 and 1992 from the Legalized Population Survey compared with a sample of Mexican immigrants from the 1990 U.S. Census.
Shirley J. Smith, Roger G. Kramer, and Audrey Singer	"Characteristics and Labor Market Behavior of the Legalized Population Five Years Following Legalization," United States Department of Labor, 1996.	Undocumented immigrants experienced a <b>15%</b> increase in their average inflation-adjusted wages within five years of gaining legal status	Men experienced an average <b>13%</b> wage increase in the five years after application for legalization under IRCA.	Women experienced an average <b>20%</b> increase in the 5 years after application for legalization under IRCA.	Data from 1987 and 1992 from the Legalized Population Survey. This is an official report of the labor department, with 115 pages of comprehensive analysis. Workers experienced no wage gain from year of entry in U.S. to year of application for amnesty under IRCA. Both men and women saw significant gains in the five-year period after application for legalization.

## **Appendix B: Modeling State and Local Tax Implications of Reform**

To model the affects of immigration reform on tax collection, the Fiscal Policy Institute turned to the Institute on Taxation and Economic Policy (ITEP). ITEP has developed what is widely regarded as the most comprehensive analysis of taxes paid at the state level. The model used here is based on the 2010 tax year, and is derived from the report “Who Pays?: A Distributional Analysis of the Tax Systems in All 50 States.”<sup>17</sup>

To estimate the taxes currently paid by undocumented immigrants, we made several assumptions, based on research findings in studies of undocumented immigrants. The median annual income for undocumented families/single individuals (those with an undocumented reference person—“head of household”—or spouse) of \$23,000 is taken from an analysis by Jeffrey S. Passel of the Pew Hispanic Center that was provided to the Fiscal Policy Institute, and is based on the 2010 Current Population Survey, with legal status imputed. An important note: we include here both families and single individuals to most closely approximate tax filers. The ITEP model is based on average income rather than median income; for undocumented immigrants we assume the two are very close. The number of people per family (again, including here single individuals) is taken from the same analysis provided by the Pew Hispanic Center. Passel’s estimates are for the United States as a whole. In the absence of state-specific data, we take those to be appropriate income level and family size estimates for New York State.

The model assumes that half of the cost of the property tax is passed through to renters. To be very conservative, we assumed that all undocumented immigrants are renters, and that all legalized immigrants will continue to be renters. It seems highly likely that legalization would significantly increase the number of homeowners among this group (and that some undocumented immigrants own homes today). As a result, this analysis likely underestimates the property taxes paid today and the boost in the future, and thus also underestimates the total taxes paid by this group.

It is assumed that immigrants send about 10 percent of income to families in their countries of origin.<sup>18</sup>

Currently, undocumented immigrants are not eligible for the Earned Income Tax Credit. We assume here that newly legalized immigrants will be eligible if they otherwise qualify for this credit.



## Estimate of New York State and Local Tax Revenue Estimated Before and Modeled After Legalization

	Median income (of families and single individuals)	Personal Income Tax (NYS, NYC and Yonkers)	Property Tax	Sales and Excise Taxes	Total Combined State and Local Taxes
Current	\$23,000	\$35,000,000	\$84,000,000	\$368,000,000	\$487,000,000
After legalization	\$25,300	\$15,000,000	\$89,000,000	\$394,000,000	\$498,000,000
<b>Changes to state and local revenues after legalization</b>		<b>-\$20,000,000</b>	<b>\$5,000,000</b>	<b>\$26,000,000</b>	<b>\$11,000,000</b>

Source: Fiscal Policy Institute calculations using the tax model of the Institute on Taxation and Economic Policy and data from the Pew Hispanic Center.

## Endnotes

---

<sup>1</sup> Jeffrey S. Passel and D’Vera Cohn, “Unauthorized Immigrant Population, National and State Trends, 2010,” (Washington, D.C.: Pew Hispanic Center, Feb. 1, 2011).

<sup>2</sup> Undocumented immigrants who entered the country prior to December 31, 2011 and have been continuously present since then would be eligible. Those who apply would have to pay a \$500 penalty fee, an application fee, and taxes for all income earned since arrival in the United States. Applicants would also have to pass a security clearance and background check.

<sup>3</sup> “MPI Updates National and State-Level Estimates of Potential DREAM Act Beneficiaries,” (Washington, D.C.: Migration Policy Institute), December 2010. There is some overlap between the number of undocumented immigrants eligible for the DREAM Act and those in the labor force (some now working are young enough and came early enough to the United States to also be considered potential DREAMers). The estimate of those eligible for the DREAM Act, however, was conducted independently of the estimate of total number of undocumented immigrants living in the state, or in the state labor force, so the numbers should not be directly compared.

<sup>4</sup> Earnings differentials are based on a Fiscal Policy Institute analysis of the 2011 American Community Survey prepared for this report. For related analysis, see also: “The New York State DREAM Act: A Preliminary Estimate of Costs and Benefits,” (New York: Fiscal Policy Institute, March 9, 2012).

<sup>5</sup> *Immigrant Small Business Owners: A Significant and Growing Part of the Economy*, (New York: Fiscal Policy Institute, June 2012). Immigrant share of small business owners by state is based on the 2010 5-year American Community Survey data, including the years 2006-10.

<sup>6</sup> See J. David Brown, Julie L. Hotchkiss, and Myriam Quispe-Agnoli. “Does Employing Undocumented Workers Give Firms a Competitive Advantage?” *Journal of Regional Science* 53(1) (February 2013):158–70. The research is based on confidential data from the Employer File and Individual Wage File compiled by the state of Georgia for administering Unemployment Insurance. The study takes people with invalid Social Security numbers as likely to be undocumented, and calculates that those who show up in these files with invalid numbers represent about a third of undocumented workers in the state.

<sup>7</sup> “Immigration Status and Pay Documentation: Findings from the 2008 Unregulated Work Survey,” (New York: National Employment Law Project Fact Sheet, February, 2013), available at [http://nelp.3cdn.net/56610295228b59f19a\\_1km6ibvof.pdf](http://nelp.3cdn.net/56610295228b59f19a_1km6ibvof.pdf).

<sup>8</sup> “Julie A Phillips and Douglas S. Massey, “The New Labor Market: Immigrants and Wages After IRCA,” *Demography*, vol. 36, No. 2 (May 1999), p 234.

<sup>9</sup> Overall, the typical wage impact of immigration from 1994 to 2007 was a modestly positive 0.4 percent for U.S.-born workers. For U.S.-born men with a high school degree or less the impact was a modestly negative 0.2 percent. For foreign-born workers who were already in the United States—the group for whom new immigrants are most substitutable—the impact was a more strongly negative -4.7 percent for women and -4.5 percent for men. See Heidi Shierholz, “Immigration and Wages: Methodological Advancements Confirm Modest Gains for Native Workers,” (Washington, D.C.: Economic Policy Institute, February 4, 2010).

<sup>10</sup> It is worth noting in passing that while legalization of undocumented immigrants reduces the number of workers who can be pitted against other workers because of their limited labor market options and legal recourse, adding guest workers may increase the number of workers who can be used in this way by employers.

<sup>11</sup> According to an analysis provided to the Fiscal Policy Institute by Jeffrey S. Passel of the Pew Hispanic Center, the labor force participation rate for unauthorized immigrants was 78 percent, for legal immigrants 75 percent, and for U.S.-born 75 percent (2011 CPS data augmented by Pew Hispanic Center).

<sup>12</sup> The Center for Budget and Policy Priorities reports that of the \$13 billion collected in Social Security payroll taxes in 2007, roughly \$1 billion was made in benefit payments, for example as survivor benefits to U.S. citizens who were dependents of deceased unauthorized workers who had Social Security payments withheld. See Paul N. Van de Water, "Immigration and Social Security," (Washington, D.C.: Center on Budget and Policy Priorities, November 20, 2008).

<sup>13</sup> The Heritage Foundation report referred to is: Robert Rector and Jason Richwine, "The Fiscal Cost of Unlawful Immigrants and Amnesty to the U.S. Taxpayer," (Washington, D.C.: The Heritage Foundation, May 6, 2013). The report was widely criticized, and led to the resignation from the foundation of one of the co-authors.

<sup>14</sup> See: "How Would CBO Analyze the Economic Effects of Immigration Legislation?," Congressional Budget Office Blog, May 2, 2013, [http://www.cbo.gov/publication/44122?utm\\_source=feedblitz&utm\\_medium=FeedBlitzEmail&utm\\_content=812526&utm\\_campaign=0](http://www.cbo.gov/publication/44122?utm_source=feedblitz&utm_medium=FeedBlitzEmail&utm_content=812526&utm_campaign=0).

<sup>15</sup> "Congressional Budget Office Cost Estimate: Senate Amendment 1150 to S. 1348, the Comprehensive Immigration Reform Act of 2007," (Washington, D.C.: Congressional Budget Office, June 4, 2007).

<sup>16</sup> Some other states may also provide state-funded coverage for lawfully present adults. California, Massachusetts, Washington State, and Washington, D.C. are the most likely. For a state-by-state analysis, see the National Immigration Law Center's frequently updated guide to immigrant eligibility for benefits, [www.nilc.org/guideupdate.html](http://www.nilc.org/guideupdate.html).

<sup>17</sup> "Who Pays?: A Distributional Analysis of the Tax Systems in All 50 States," (Washington, D.C.: Institute on Taxation and Economic Policy, January 2013).

<sup>18</sup> See, for example, Manuel Orozco, "Remittances to Latin America and the Caribbean: Issues and Perspectives on Development," (Washington, D.C.: Report Commissioned by the Organization of American States, September 2004).