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The Impact of a Path to Citizenship on the US Economy and Social Insurance System

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Comprehensive immigration reform has long eluded Congress. Although the Senate recently passed a bill—S. 744, or the Border Security, Economic Opportunity, and Immigration Modernization Act—that would take significant steps toward comprehensive reform, it is currently being held up in the Republican-controlled House of Representatives. The sticking point appears to be the “path to citizenship” for undocumented immigrants included in the Senate bill. The Congressional Budget Office, together with the Joint Committee on Taxation, recently found that S. 744 would produce significant budgetary savings and macroeconomic benefits over the next two decades, but those estimates included the effects of increases in legal and “high skill” immigration in the proposed reforms. What would the costs and benefits look like, for both the social insurance system and the US economy as a whole, if we were to focus only on the most controversial part of the bill: the path to citizenship?

Our research suggests that legalizing a significant proportion of the undocumented immigrant population would not impose serious costs on either the economy in general or the social insurance system in particular. In fact, it turns out that maintaining the status quo on this matter would be economically wasteful.

On the one hand, legalization would lead to increased benefit payouts for social insurance programs, since it would make a portion of the currently undocumented population eligible for benefits—we focused our analysis on Social Security retirement benefits and unemployment insurance. Although some undocumented immigrants already receive unemployment insurance benefits despite a lack of eligibility, they do so at a lower replacement rate (a smaller fraction of the value of their wages) as compared to either the native born or legal immigrants.

On the other hand, legalization should be expected to increase the level of capital accumulation in the US economy. Compared to legal immigrants, the undocumented population sends a larger proportion of its savings back to countries of origin in the form of remittances. Using data from the Mexican Migration Project and the Latin American Migration Project, we estimated the likely changes in remittances that would occur if a portion of the unauthorized immigrant community were offered a path to legal immigration. Even after accounting for the likelihood that newly legalized immigrants might need to save less—because they will be able to count on receiving Social Security and higher unemployment insurance benefits—we still expect savings to grow on net, and for capital formation and economic growth to increase as a result. Moreover, offering a path to legal immigration status should increase labor productivity. The effect here would come in the form of better skill matching, as newly legalized immigrants would be able to seek

out appropriate employment without the need to maneuver in the shadows of the labor market.

Estimating the overall costs of offering a path to citizenship therefore requires looking at the tension between the contribution to economic growth of newly legalized immigrants (through higher savings and labor productivity) and the costs to which they would subject the system through greater usage of social insurance provisions. When we ran the numbers on a scenario in which 50 percent of undocumented immigrants became legal immigrants, the positive effects of the former outweighed the costs of the latter, leading to net benefits in the form of overall increases in capital stock, output, consumption, and labor productivity. These positive macroeconomic effects would also feed into improvements in the finances of the social insurance system. As a result, the overall costs to the system would ultimately be negligible: in order to support new beneficiaries, Social Security and unemployment insurance tax rates would need to increase by only 0.13 and 0.01 percentage points, respectively. Moreover, note that for the sake of simplicity we assumed that all currently undocumented immigrants pay into Social Security and unemployment insurance. The Social Security Administration estimates that only about half of the undocumented population pays such taxes. This means that our estimates *understate* the benefits of immigration reform, since in reality legalization would lead to increases in tax payments alongside higher benefit payouts.

The aforementioned macroeconomic improvements would be relatively modest, with increases on the order of one- to two-tenths of 1 percent for many measures. In terms of levels, we are talking about an overall contribution of \$36 billion per year to the US economy. The limited impact should not be surprising, since even a 50 percent legalization policy means that only around 1.8 percent of the US population would be changing status. The Senate bill currently on the table is estimated to involve closer to 70 percent legalization, which would, given the dynamics of our model, mean even greater economic benefits. Still, even with a 70, or 80, or 100 percent legalization rate, the impacts are not likely to be earth shattering. Nevertheless, the key takeaway is that we cannot reasonably oppose comprehensive immigration reform on the basis of the alleged economic burden of offering a pathway to citizenship. Even when we isolate this most controversial element of reform, maintaining the status quo is the most costly option.

A more detailed discussion of the issues can be found at www.levyinstitute.org/publications/?docid=1416.

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