

CBO TESTIMONY

Statement of
Paul R. Cullinan
Chief, Human Resources Cost Estimates Unit

The Budgetary Impact of Current and Proposed Border Security and Immigration Policies

before the
Committee on the Budget
United States Senate

August 30, 2006

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CONGRESSIONAL BUDGET OFFICE
SECOND AND D STREETS, S.W.
WASHINGTON, D.C. 20515

Mr. Chairman and Members of the Committee, thank you for the opportunity to appear before you to discuss the budgetary and economic effects of immigration and border security policies.

Following are the major points I would like to make today:

- Immigration reform and border enforcement could have significant effects on federal spending and revenues. For example, the Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) estimate that if S. 2611, the Comprehensive Immigration Reform Act of 2006, was enacted with certain technical changes, federal spending for mandatory programs would rise by \$48 billion over the next 10 years and revenues would climb by \$44 billion.¹ In addition, CBO estimates, implementation of S. 2611 would require roughly \$81 billion in additional appropriations over the 10-year period, resulting in \$78 billion in added outlays.
- Changes in immigration policy could have measurable effects on labor markets and the economy. In CBO's estimation, S. 2611 would increase economic growth but only by a small degree.
- A rise in immigration could improve the financial outlook for the Social Security system, but if the magnitude of such an increase was similar to that foreseen in recent legislation, its effects would not avert the projected funding shortfall in the program's long-term outlook.
- Tightening border security and enforcing employment eligibility verification more stringently would require future Congresses to allocate significantly greater resources to those activities than have been provided in recent years.

Overview of S. 2611 and H.R. 4437

Before addressing the major points outlined above, it may be useful to compare the two immigration bills that have been passed by the House and the Senate (see Table 1). The House bill, H.R. 4437, focuses on border security and employment eligibility verification. The Senate bill also addresses those issues but in addition would make major changes in the avenues for legal immigration and would authorize additional funding for immigration and customs personnel, detention facilities, and workplace compliance staff. Further, S. 2611 would establish a process for many of those who currently work illegally in the United States to adjust their status to remain in the country legally.

1. The technical changes would affect subsection 601(b) of the act, which provides an exemption from criminal and civil tax liabilities for employers that hire workers who have applied to have their legal status changed. JCT estimates that the act as written would reduce payroll and income tax revenues by \$80.3 billion over the next 10 years. The act as intended, according to the description by Judiciary Committee staff, would increase such revenues by \$41.9 billion, in JCT's estimation. CBO's estimate of the revenues from fines, penalties, and fees (\$1.7 billion) is unaffected by that drafting issue.

Table 1.

Comparing Major Elements of the House and Senate Immigration Bills

Provisions Affecting:	H.R. 4437	S. 2611
Border Enforcement	Additional personnel and other resources at ports of entry; 730 miles of fencing	Additional personnel and resources at ports of entry; additional border patrol agents; 420 miles of fencing and 700 miles of vehicle barriers
Alien Detention	Reimbursements to state and local governments for costs of detaining aliens	Reimbursements to state and local governments for costs of detaining aliens; acquisition of additional space for detention of not less than 20,000 aliens
Other Immigration Enforcement	Broadened coverage of the definition of alien smuggling; upgraded penalty for illegal presence; stiffened penalties for repeat offenders	Broadened coverage of the definition of alien smuggling; upgraded penalty for illegal presence; stiffened penalties for repeat offenders
Employment Eligibility Verification and Compliance	Mandatory employment eligibility verification of new employees by all employers, to take effect two years after enactment; eligibility verification of all other employees within six years after enactment	Mandatory employment eligibility verification by all employers, to take effect 18 months after the appropriation of at least \$400 million; eligibility verification of critical employees to take effect immediately
Guest-Worker Program	None	Admission of a maximum of 200,000 guest workers (plus their dependents) annually
Employer-Sponsored and Family-Based Visas	No change	Increase in employment-based visas from 140,000 to 450,000 annually plus carryover for 2007 to 2016 and an increase to 290,000 plus carryover thereafter; imposition of a cap of 650,000 on new employment-based visas; increase in family-based visas from 226,000 to 480,000 annually plus carryover; exemption of certain highly educated workers and others from annual numerical limits

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Table 1.

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Provisions Affecting:	H.R. 4437	S. 2611
H-1B Visas	No change	Increase from 65,000 to 115,000 annually; formula to allow cap to fluctuate in future years
Legalization for Undocumented Workers	None	Authorization to allow certain undocumented workers (and their dependents) who have been in the United States for more than five years to adjust their status; authorization to allow those who have been here from two to five years to qualify for deferred mandatory departure status and to apply for the guest-worker program
Legalization for Undocumented Agricultural Workers	None	Creation of a “blue card” program for up to a total of 1.5 million agricultural workers (plus their dependents)

Sources: Congressional Budget Office; Congressional Research Service.

Federal Budgetary Effects of Immigration Policies

The effects of immigration policies on the federal budget are complicated and uncertain. The complexity stems from the myriad aspects of immigration—legal immigration, illegal immigration, and emigration—which interact in multiple ways. (Other entrants to the United States, such as asylees and refugees, involve a largely different set of considerations.) Moreover, an understanding of the issues relating to illegal immigration is limited by the obvious difficulty of obtaining reliable information from a portion of the population that has an incentive to remain uncounted.

The uncertainty surrounding assessments of the budgetary impact of proposed immigration policies relates to several factors. First, the lack of reliable information means that estimates of even near-term budgetary effects are highly uncertain. Second, the hard-to-predict behavior (of both immigrants and potential employers) makes it extremely difficult to project economic and budgetary effects over the long term with much confidence. Third, the way changes in the administrative and enforcement procedures associated with some of the proposed policies are implemented can strongly influence the policies’ effects on the economy and the budget.

Immigrants are drawn to the United States for a variety of reasons, including opportunities for employment, the reunification of families, and, perhaps, access to certain services. The rewards for many potential immigrants are sufficient to encourage a substantial number of them to enter this country illegally (or to exceed the stays granted in temporary visas) when legal avenues to entry and employment are limited.

CBO's review of the research on immigration found that over the long term, immigration tends to affect federal finances positively and state and local finances negatively. Evaluating immigration's net effect on the federal budget is complicated by the fact that immigrants generally differ from native-born people in a variety of ways. For example, immigrants tend to have lower earnings than native-born workers do, so they may generate less tax revenue and receive more benefits from needs-based programs such as Medicaid and Food Stamps. Immigrants also tend to have more children than their native-born counterparts do—meaning that in the short run, they may create more demand for public education and other programs aimed at children but in the long run leave more descendants—who in turn pay taxes and receive government services. Another factor that affects budgetary impact is the skill level of new workers. Policies that provided more access for lower-skilled workers would yield less favorable results for the federal budget than those focusing on higher-skilled workers.

Emigration also helps determine how immigration policies affect the federal budget. Workers who leave the United States before earning the quarters of coverage required to qualify for Social Security and Medicare receive no benefits from those programs unless their home country has a so-called totalization agreement or treaty with the United States. Thus, many workers who return to countries that have no such arrangements pay U.S. federal taxes but receive no benefits.

CBO and JCT recently estimated the effects on the federal budget of enacting S. 2611. Over the next 10 years, mandatory (direct) spending would increase by \$48 billion, according to the two agencies, with more than half of those costs attributable to refundable tax credits (see Tables 2 and 3). If the act was implemented as it was intended to be, it would also raise revenues—mostly payroll and income taxes—by about \$44 billion over the same period. In addition, CBO estimates, implementation of S. 2611 would require roughly \$81 billion in additional appropriations over the 10-year period, resulting in \$78 billion in added outlays.

Table 2.**Summary of Estimated Budgetary Effects of S. 2611 as Passed by the Senate**

(Billions of dollars, by fiscal year)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total, 2007– 2016
Changes in Direct Spending											
Estimated Outlays											
On-budget	-1.8	-1.4	5.9	5.9	5.8	4.6	4.9	5.6	6.2	7.4	43.3
Off-budget	*	0.1	0.3	0.4	0.5	0.5	0.7	0.8	0.9	1.1	5.2
Total	-1.8	-1.2	6.2	6.3	6.3	5.2	5.6	6.4	7.1	8.5	48.4
Changes in Revenues											
Estimated Revenues											
On-budget	-1.4	1.7	-5.4	-8.4	-8.1	-3.8	-2.9	-2.3	0.1	1.6	-28.9
Off-budget	-4.3	-8.3	-9.9	-9.5	-8.0	-6.2	-5.0	-3.9	-0.1	5.6	-49.6
Total	-5.7	-6.7	-15.3	-17.9	-16.0	-10.0	-8.0	-6.2	*	7.2	-78.5
Changes in Spending Subject to Appropriation											
Estimated Level of Authorizations	10.3	5.6	5.8	7.2	8.3	9.3	7.6	8.2	8.9	9.5	80.8
Estimated Outlays	3.7	6.3	7.6	7.3	8.3	9.1	9.2	8.9	8.7	9.3	78.3
Memorandum:											
Changes in Revenues Based on the Act's Intent as Conveyed by Staff											
Estimated Revenues											
On-budget	-0.8	3.3	-3.2	-6.2	-6.0	-1.9	-1.2	-0.7	1.3	2.0	-13.6
Off-budget	-0.9	1.8	4.5	5.7	6.4	7.0	7.5	7.7	8.4	9.1	57.2
Total	-1.8	5.1	1.3	-0.5	0.3	5.0	6.3	7.1	9.6	11.1	43.6

Sources: Congressional Budget Office; Joint Committee on Taxation.

Notes: Numbers may not add up to totals because of rounding.

For changes in direct spending, estimated budget authority would be equal to estimated outlays.

* = less than \$50 million.

Cost estimates provided by CBO and JCT cover only the next 10 years. However, the budgetary effects of legislation that changed the level and composition of net immigration in this country would last for decades. The legislation's impact on mandatory spending in the first 10 years after enactment would be constrained by the restricted access to federal benefit programs that now applies to people who have fewer than five years of legal permanent resident status. For example, under S. 2611, most of the additional Medicaid spending over the next 10 years would result from emergency medical assistance and full Medicaid benefits for children of the new immigrants who had been born in the United States. Eventually, immi-

Table 3.

Estimated Effects of S. 2611, as Passed by the Senate, on Direct Spending by Program

(Outlays in billions of dollars, by fiscal year)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total, 2007- 2016
Refundable Tax Credits ^a	*	1.3	3.1	3.7	3.7	2.7	2.6	2.6	2.3	2.5	24.5
Medicaid	0.1	0.2	0.5	0.6	0.8	1.0	1.4	1.8	2.3	2.9	11.7
Social Security (Off-budget)	*	0.1	0.3	0.4	0.5	0.5	0.6	0.8	0.9	1.0	5.2
Medicare	0	0	*	0.1	0.3	0.4	0.5	0.6	0.8	0.9	3.7
Food Stamps	*	*	*	0.1	0.1	0.2	0.3	0.4	0.6	0.7	2.4
Child Nutrition	*	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	1.3
Compensation for Error	*	0.1	0.1	*	*	*	*	*	*	*	0.4
Supplemental Security Income	*	*	*	*	*	*	*	0.1	0.1	0.1	0.3
Unemployment Insurance	0	0	0	*	*	*	*	*	0.1	0.1	0.2
Student Loans	*	*	*	*	*	*	*	*	*	*	0.1
Visa Fees	-1.9	-3.0	2.1	1.3	0.8	0.1	-0.1	-0.1	-0.1	-0.1	-1.2
Total	-1.8	-1.2	6.2	6.3	6.3	5.2	5.6	6.4	7.1	8.5	48.4
On-budget	-1.8	-1.4	5.9	5.9	5.8	4.6	4.9	5.6	6.2	7.4	43.3
Off-budget	*	0.1	0.3	0.4	0.5	0.5	0.6	0.8	0.9	1.0	5.2

Sources: Congressional Budget Office; Joint Committee on Taxation.

Notes: Numbers may not add up to totals because of rounding.

* = costs or savings of less than \$50 million.

a. Refundable tax credits include the outlay portion of the earned income and child tax credits.

grant families with limited income and resources would become eligible for full Medicaid coverage in most states, boosting spending for the program. However, the revenue gains under the legislation would probably also be greater beyond the 10-year period, as the new workers became more experienced (and earned higher wages) and their offspring entered the labor market.

Long-Range Effects on Social Security Financing

Although immigration policy could have significant implications for the finances of the Social Security program, the effects of the changes embodied in S. 2611 or similar bills would not eliminate the funding pressures on the program in coming decades. Under S. 2611, additional workers would be allowed to work legally in the United States, boosting both payroll taxes and benefit payments of the Social Security system. The net impact of those workers would depend on their character-

istics (such as age, educational attainment, health status, and earnings capacity) and those of their families.

The Social Security Administration and CBO have both constructed computer models of Social Security's finances, and when increases in immigration are simulated in the models, the program's finances generally show improvement because additional revenues are collected before new benefit payments are made. The 2006 report of the Social Security trustees indicated that an increase of 400,000 people in annual net immigration would improve the actuarial balance of the program by 0.26 percent of taxable payroll, or about one-eighth of the program's estimated 75-year shortfall.² CBO's simulations yielded similar results. The Social Security Administration's Office of the Chief Actuary estimated that under S. 2611, the 75-year shortfall would be reduced by 0.13 percent of taxable payroll.³

The estimated effects that changes in immigration policy would have on Social Security's finances are sensitive to the nature of those changes. The initial revenue gains would be smaller, for example, if the new immigrants earned less than previous cohorts of immigrants covered under Social Security. The additional benefits paid would also be less—but not quite proportionately, because of the program's progressive benefit formula. In addition, if the policy changes affected undocumented workers (and their employers) who had already paid Social Security taxes, a change in their status would put them on track to eventually receive benefits but with no commensurate gain in revenues—thereby worsening the system's finances. S. 2611 would increase both the number of less-skilled workers legally employed in the United States (through the guest-worker program and a larger share of green cards for that category of workers) and the number of higher-skilled workers (through the expansion of employment-based visas and the exclusion of highly educated immigrants from numerical limits).

Potential Macroeconomic Effects

Immigration reform and border security enhancements could affect the economy in a variety of ways. Some of those effects might be felt broadly, throughout the country, whereas others might be concentrated in certain economic sectors or geographic locales. For example, CBO estimates that S. 2611 would add about 2.5 million employees to the U.S. workforce by 2016, mostly through its guest-worker program and higher caps on the number of legal immigrants. The work performed by those additional employees would increase the production of goods

2. See Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, *2006 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (May 1, 2006), available at www.ssa.gov/OACT/TR/TR06/index.html.

3. Letter to Senator Charles E. Grassley from Steve Goss, Chief Actuary, Social Security Administration, July 24, 2006.

and services and raise the level of gross domestic product (GDP), all other things being equal. Alternatively, tightening border security and enforcing employers' compliance with immigration laws could slow net inflows of unauthorized workers, which in turn could dampen the growth of the labor force.

Beyond the direct effects on the size of the workforce, legislation such as S. 2611 might affect the economy in other ways. CBO analyzed the economic effects of an earlier version of S. 2611 (the bill as introduced) under two different assumptions about how investment might respond to the legislation's enactment. In CBO's estimation, the level of GDP would rise by 0.3 percent to 0.4 percent during the 2007–2011 period and by 0.8 percent to 1.3 percent over the following five years. Under the Senate-passed version of S. 2611, GDP would increase by a smaller amount—because the estimated effects of that bill on the number of additional workers would be about two-thirds as great as the effects estimated for the bill as introduced.

Those economic effects in turn could affect the budgetary impact of S. 2611. In its estimate of the bill's implications for revenues, JCT included the effect of taxes on wages earned by additional immigrants as well as the effect of reductions in average wage rates stemming from additional workers. CBO had earlier calculated the additional budgetary impact (for the bill as introduced) of the potential changes in economic activity and estimated that they could improve the bill's budgetary impact by about \$20 billion to \$30 billion over the 2007–2011 period and by about \$60 billion to \$130 billion over the 2012–2016 period. Again, the effects for the act as passed by the Senate would be smaller because of that bill's more modest impact on the labor force.

Border Security and Workplace Compliance with Immigration Laws

Slowing the flow of illegal immigration and ending the employment of undocumented workers would require substantial increases for many years in spending for border security and workplace compliance activities. However, unless those activities were well designed and coordinated, the allocation of additional funds to such efforts would not achieve policymakers' objectives.

In recent years, funding for border security has risen sharply, but it has not kept sizable numbers of illegal migrants from entering the country or many legal migrants from overstaying their visas. Although the United States has nearly doubled the number of its border patrol agents over the past decade, a large flow of immigrants continues to enter the United States illegally. Moreover, a recent study by the Pew Hispanic Center estimated that roughly 40 percent to 50 percent of people who are now here illegally entered the country by legal means. The center's most recent estimate of the number of people residing in the United States without legal

authorization was 11.1 million for March 2005, an increase of 800,000 above its estimate for the previous March and a rise of 2.7 million since April 2000.

S. 2611 and H.R. 4437 would each authorize increased funding for additional border enforcement (including fencing and other physical barriers), detention facilities, and port security. The Senate bill would also significantly boost the number of border patrol officers as well as add immigration and customs officials away from the borders. Although those additional resources could be expected to impede the flow of illegal entrants to this country as well as increase the apprehension of those residing here illegally, people who wished to obtain work in the United States could still find many other ways to gain access. Moreover, enhanced border security could have certain unintended results. For example, the emigration of illegal workers could become more infrequent. Those workers might be less likely to leave if they knew that it had become more difficult for them to reenter the country.

Enforcement of employment eligibility verification is the other major avenue for addressing both immigration and border security concerns. To most observers, it is clear that higher wages are a powerful incentive that encourages workers to cross U.S. borders illegally. If employment eligibility verification, employer sanctions, and workplace compliance were all toughened, the economic returns from illegal immigration could be substantially reduced. In other words, if employers in this country became less willing to risk fines and other penalties associated with hiring illegal workers (or workers with questionable identification), the reduction in employment opportunities for illegal immigrants would lessen the economic rewards for entering or staying illegally.

Congressional Budget Office Publications on Immigration

The following CBO publications are available in a special collection on CBO's Web site at www.cbo.gov/publications.

S. 2611, Comprehensive Immigration Reform Act of 2006, Cost estimate of the bill as passed by the Senate on May 25, 2006 (August 18, 2006).

Projections of Net Migration to the United States (June 2006).

S. 2611, Comprehensive Immigration Reform Act of 2006, Letter to the Honorable Jeff Sessions providing additional detail on the cost estimate for S. 2611 as introduced on April 7, 2006 (May 24, 2006).

S. 2611, Comprehensive Immigration Reform Act of 2006, Cost estimate of the bill as introduced on April 7, 2006 (May 16, 2006).

Immigration Policy in the United States (February 2006).

Global Population Aging in the 21st Century and Its Economic Implications
(December 2005).

“The Impact of Immigration on the Long-Term Budget Outlook,” Box 1-2 in *The Long-Term Budget Outlook* (December 2005).

The Role of Immigrants in the U.S. Labor Market (November 2005).

Remittances: International Payments by Migrants (May 2005).

A Description of the Immigrant Population (November 2004).