

Out of the Shadows: Worker Pay, Benefits Could Rise with Immigration Law Revamp

By Pia Orrenius, Michael Weiss and Madeline Zavodny

Immigration reform, with the support of the president, is back before a Congress that may be ready to consider new measures. If a legalization plan can be crafted, it would likely far exceed the magnitude of the only other such large-scale effort, the Immigration Reform and Control Act (IRCA) of 1986.

A comprehensive legalization program would reflect the unprecedented scale of the unauthorized workforce today. Whereas 1.7 percent of the labor force took advantage of the 1986 program, the undocumented now make up over 5.2 percent of U.S. workers and number 1.8 million in Texas alone.

The main economic effect of legalization would be higher earnings for those who become legal. Latin American legalized immigrants' wages increased 6 to 13 percent after IRCA, with slightly larger effects among women than men.¹

Legalization removes employers' risk of incurring penalties and allows immigrants to move to better, higher-paying jobs. It also could lead to additional illegal and legal immigration—which characterized the previous U.S. experience (*see chart*). Some benefits traditionally associated with unauthorized workers would dissipate with legalization. Employers, particularly in sectors of the economy that depend on a steady stream of such labor, benefit from people willing to hold any job, even undesirable ones, that pay low wages. Consumers enjoy lower prices for goods and services. The immigrant wage increase that would occur after an amnesty is effectively a transfer to the newly legalized workers from employers and consumers.

The impact on citizens is mixed. Labor market outcomes may worsen for natives and other immigrants if newly legalized immigrants compete more closely with them for jobs. However, compliance with tax withholding and

labor regulations—from minimum wage laws to health and safety regulations—would likely increase and level the playing field by erasing some cost advantages of illegal immigrant workers.

On the tax side, income and payroll tax revenues are expected to increase as some workers paid under the table move onto the books. However, estimates suggest that over half of unauthorized immigrants already pay income and payroll taxes through withholding, filed tax returns or both.²

On the spending side, most of the short-run impact would involve the U.S. citizen children of newly legalized individuals. These minors are already eligible for means-tested benefits, such as the Children's Health Insurance Program, if family income is low enough but often aren't enrolled because of deportation fears.

There would be an added social benefit—greater family income and stability. Research indicates that Mexican-American young adults living in the United States complete more years

of school, score higher on standardized tests and learn better English if their parents gain legal status.³

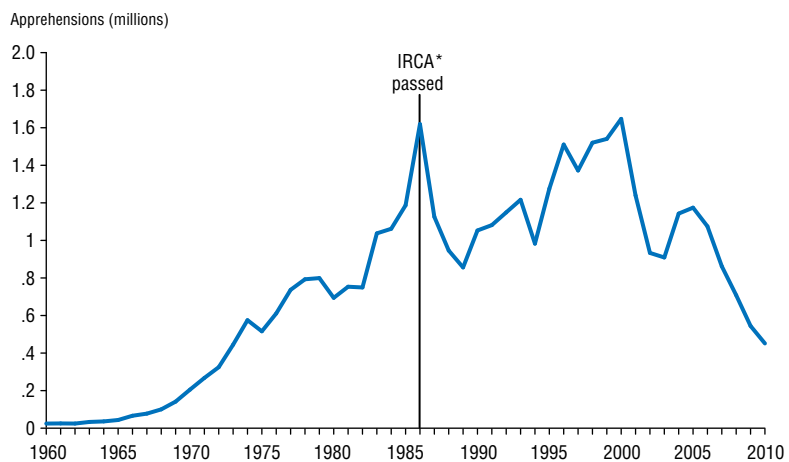
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¹ See "Gender Differences in the Labor Market: Impact of IRCA's Amnesty Provisions," by Catalina Amuedo-Dorantes, Cynthia Bansak and Steven Raphael, *The American Economic Review*, vol. 97, no. 2, 2007, pp. 412–16, and "Legalization and the Economic Status of Immigrants," by Silvia H. Barcellos, RAND Corp., RAND Working Paper no. WR-754, March 2010, www.rand.org/content/dam/rand/pubs/working_papers/2010/RAND_WR754.pdf.

² See "The Impact of Unauthorized Immigrants on the Budgets of State and Local Governments," Congressional Budget Office, December 2007. Unauthorized workers use a variety of means to comply with tax laws. Some have been issued an Individual Taxpayer Identification Number (ITIN) or a Social Security number that is invalid for work, while others use fake numbers or numbers that belong to somebody else. Until the early 2000s, there were few consequences for workers who submitted false or fraudulent Social Security numbers.

³ See "The Economic Consequences of Amnesty for Unauthorized Immigrants," by Pia M. Orrenius and Madeline Zavodny, *Cato Journal*, vol. 32, no. 1, 2012, pp. 85–106.

Border Patrol Apprehensions Along the Southwest Border



*Immigration Reform and Control Act.

SOURCE: U.S. Department of Homeland Security, Enforcement Case Tracking System and Performance Analysis System; Statistical Yearbook of the Immigration and Naturalization Service (various years); "Apprehensions by the U.S. Border Patrol: 2005–2010," by Lesley Sapp, Office of Homeland Security, 2011; "Immigration Enforcement Actions: 2011," by John Simanski and Lesley Sapp, Office of Homeland Security, 2012.