

A Conversation with Pia Orrenius

Immigrant Legalization Offers Range of Economic Gains, Some Fiscal Costs

*Pia Orrenius is a vice president and senior economist at the Federal Reserve Bank of Dallas. She has written extensively on the economic effects of immigration and coauthored the book *Beside the Golden Door: U.S. Immigration Reform in a New Era of Globalization*. She discusses the Obama administration's recently announced plans to legalize the status of several million unauthorized immigrants.*

Q. What is the status of unauthorized immigrants in the U.S.?

Demographers at the Pew Research Center estimate that there are around 11.2 million undocumented immigrants in the U.S.—about 3.5 percent of the population and 5.1 percent of the labor force. Lawmakers have long debated what to do about this population. The last broad-based legalization was the Immigration Reform and Control Act in 1986. It legalized 2.7 million unauthorized immigrants, giving them permanent resident status (green cards). About one-third have since become naturalized U.S. citizens.

There have been smaller legalization programs since 1986, but bills proposing comprehensive immigration reform were defeated in 2006, 2007 and 2013.

State and local governments have been more successful than the federal government in passing immigration legislation in recent years. Many of the laws seek to discourage undocumented immigrants, such as E-Verify laws mandating businesses to electronically confirm that their newly hired workers are authorized for employment. Texas recently implemented an E-Verify law but limited it to state agencies and their contractors. Conversely, some jurisdictions have provided relief to immigrants, such as sanctuary city laws mandating that city employees not ask residents about their immigration status and not report unauthorized immigrants to the Department of Homeland Security.

Q. What are the provisions of the president's executive action?

The executive action the president announced in November has several provisions. All are currently blocked by a federal court ruling, so none has been implemented.

The centerpiece is Deferred Action for Parents of Americans and Lawful Permanent Residents (DAPA), which would temporarily legalize the status of up to 3.7 million unauthorized immigrants in the U.S., including around 560,000 in Texas. Undocumented immigrants are eligible if they have a child who is a U.S. citizen or lawful permanent resident. They also must have been continuously present in the U.S. since 2010 and cannot have committed any serious crimes that would deem them a “removal priority.” Eligible immigrants whose applications are approved can expect to receive a three-year work permit and protection from deportation. They will be assigned Social Security numbers and can get a driver's license in most states. The action does not grant permanent residence or a path to citizenship; beneficiaries could not sponsor their relatives for permanent residency. According to the president's plan, DAPA status would be temporary but renewable every three years.

DAPA is similar to DACA, Deferred Action for Childhood Arrivals, a separate executive action implemented in fall 2012. DACA targets undocumented immigrants brought here as children and gives them benefits similar to DAPA—de-

ferred deportation and renewable work permits. To date, about 102,000 Texas youth have applied for and received DACA. Among Texas' estimated 1.7 million undocumented immigrants, 54 percent would likely be eligible for relief under DAPA and/or DACA. This estimate from the Migration Policy Institute includes expansions to DACA announced as part of the November executive action.

Q. What are the likely economic effects of DAPA on immigrants?

Work permits will increase undocumented immigrants' access to better jobs. Initially, turnover may increase as workers quit their existing employment to look for better opportunities. Beneficiaries' wages are likely to rise as the quality of job matches improves and because the penalty on employment has been lifted. After all, employers who hire undocumented workers are subject to a fine if they are caught; this depresses the wages of illegal immigrant workers. Under DAPA, the threat of a fine and other penalties is removed and, since job matches are also expected to improve, immigrants' wages should rise.

Although the great majority of undocumented men work despite their unauthorized status, many unauthorized women do not. DAPA can be expected to increase labor force participation among these women as the threat of apprehension and deportation is removed.

Q. What can we learn from other similar programs?

While theory suggests wages and labor force participation should rise among immigrants who benefit from DAPA, empirical studies can quantify those effects. My coauthor, Professor Madeline Zavodny of Agnes Scott College, and I conducted a study that addresses this question using the experience of immigrants from El Salvador and the Temporary Protected Status (TPS) program. (*See Dallas Fed Working Paper no. 1415.*)

In 1990, Congress authorized the president to grant citizens of some troubled nations “temporary protected status” while in the U.S. TPS is designed to provide a safe haven to migrants who



would otherwise return to potentially dangerous situations in their home countries. Unlike refugees, migrants with TPS do not receive legal permanent resident status. They are supposed to return home when the TPS designation for their country expires.

Most TPS beneficiaries are unauthorized immigrants who were subject to removal and could not work legally. A TPS designation was implemented for Salvadorans in March 2001 after two earthquakes rocked their country. It has been extended 10 times since, most recently in January 2015. As a result, many Salvadoran migrants present in the U.S. in early 2001 have been allowed to live and work here since. About 290,000 Salvadorans were initially granted TPS, and some 212,000 currently have it.

Our study compared less-educated Salvadorans who likely received TPS with those who did not. We found that the employment rate of TPS eligible men fell 6 percentage points as many workers quit existing jobs to search for better ones once they had work permits. There were no changes in hours worked or weeks worked among male workers who remained employed, but their wages rose 13 percent on average compared to the control group.

We also looked at TPS eligible women. While their wages did not increase, they greatly increased their work effort. Among less-educated, TPS eligible women, labor force participation rates soared 15 percentage points relative to the control group.

Q. How are other workers affected?

Most undocumented immigrants are already in the labor force and em-

▶ *Most undocumented immigrants are already in the labor force and employed despite the fact that they are not allowed to work under the law.*

ployed despite the fact that they are not allowed to work under the law. They get around the law by using fake Social Security numbers or numbers that belong to someone else. They may also work for employers who don't check their work authorization and/or pay them cash. These are often not the same employers who hire native workers, which limits the extent of labor market competition between some unauthorized immigrants and natives.

Once immigrants receive work permits, they can better access jobs with employers who also hire natives, and this may increase direct labor market competition, putting downward pressure on native workers' wages in the short run. This effect should be quite modest. Even when competing in the labor market, immigrants and natives have different skills that set them apart. Language and education are two of the most important. Legal immigrants are much closer substitutes for the newly legalized than are natives.

Another mitigating factor could be that employers switch to hiring legal workers once they become relatively plentiful. If the labor demand moves with the worker to the "legal market," there are few, if any, adverse wage effects. To facilitate this process, laws such as DAPA should grant employers one-time immunity from prosecution.

Q. Do you believe undocumented immigrants will apply for the new program?

The effects of DAPA on the labor market and other areas could be limited by low take-up among eligible immigrants. The group targeted under DAPA, particularly the parents of U.S. citizen children, can be sponsored for permanent residence when their children turn 21.¹ Green cards are a far more favored option by immigrants than deferred deportation. It is telling that DACA, implemented in 2012, has had a take-up rate of only 59 percent. Youth likely put it

off for a number of reasons, including the fear of exposing unauthorized relatives, lack of knowledge about the program, its high costs (at least \$465) and temporary status.

Q. Who would be left out?

Despite their broad reach, the DAPA and expanded DACA provisions leave out an estimated 5.8 million unauthorized immigrants who would be ineligible.

Q. What other economic effects of legalization might arise?

Legalization of unauthorized workers has effects outside labor markets. A number of these are positive for natives and immigrants. Once unauthorized immigrants are legalized and have proper identification cards and Social Security numbers, their improved economic status will increase their demand for goods and services. There will be increased demand for homes and cars and related financing and insurance services, for example. Research also shows that the children of legalized immigrants benefit in terms of higher educational attainment and other measures.

The tax contributions of legalized immigrants should also increase, although whether such increases are sufficient to offset additional spending depends on the details of the program. In its current form, DAPA would allow beneficiaries access to federal welfare programs such as the Earned Income Tax Credit, an expense unlikely to be offset by taxes on higher wages.

Effects of legalization are not limited to the U.S. Origin countries are likely to benefit as immigrants are able to return there for visits. This will translate into more travel, tourism and remittances—all positively affecting countries such as Mexico and nations in Central America.

Note

¹ Sponsorship is encumbered by the three- and 10-year readmission bars for most unauthorized immigrants who try to adjust their status to lawful permanent resident.