

Three ways immigration reform would make the economy more productive

June 16, 2013, Reflejos

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La legalización de inmigrantes indocumentados, realizada correctamente, incrementaría la productividad económica en EEUU.

The legalization of undocumented immigrants, done right, would increase economic productivity in the United States.

(Immigration Impact) — A report just released by the Fiscal Policy Institute, *Three Ways Immigration Reform Would Make the Economy More Productive* shows that legalization of undocumented immigrants, done right, would do three things to increase economic productivity in the United States.

1) Reform would remove barriers to advancement for currently undocumented immigrants. Our study concludes that legalized workers can be expected to earn about 10 percent more than undocumented workers. We can see this from studies comparing the experiences of undocumented workers with those of legal immigrant workers today, as well as from the experience of immigrants who gained legal status after the immigration reform of 1986.

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Several factors come into play to explain the legalization advantage. Legalized workers would have better job mobility, allowing them to find the match that’s right for them. Having legal status also makes it harder for unscrupulous employers to take advantage of undocumented workers. Most interesting is that workers with legal status see a real return to their skill level in a way that undocumented immigrants don’t. As a result, they are more likely to improve their English, go to college, or enroll in workforce development programs, all of which lift their wages while benefiting their employers.

2) Reform would create a more level playing field for businesses and workers. When some firms hire undocumented immigrants and pay them substandard wages or evade payroll or other taxes, they put competing firms at a disadvantage. A level playing field would orient firms around productive competition, providing quality products and services at the best price, rather than wasteful competition around evading laws and underpaying workers.

A study in Georgia by the Federal Reserve Bank of Atlanta showed that the benefits to law-abiding businesses could be substantial. The study found that employers who do not hire undocumented workers are significantly more likely to close if they compete in the same industry as firms that hire undocumented immigrants. Immigration reform would help reverse this trend, so that firms that can’t survive without hiring people at substandard wages or evading

taxes would simply go out of business, allowing law-abiding firms to expand. It's important to remember that undocumented immigrants are not the only ones being paid substandard wages, or paid off the books, but they are among the groups most likely to be subject to these types of abuses.

3) Reform would bring taxes, services, and social insurance into better alignment. We found that immigration reform is unlikely to have a dramatic net impact on government budgets, despite some claims to the contrary (I'm looking at you, Heritage Foundation). But what reform will do is align taxes, services, and social insurance so that newly legalized immigrants pay their fair share of taxes, get the services that will help them participate fully in American life, and strengthen programs such as Social Security, workers' compensation, and unemployment insurance by making sure more people pay in and more people are covered.

In New York, we found that legalizing undocumented immigrants would make tax collection function as it should. Currently, about half of undocumented immigrants file state and local income tax returns. Reform should mean that newly legalized immigrants would file returns at the same rate as everyone else, while also being eligible for tax credits that other New York residents can get. Newly legalized immigrants would pay more in sales and property taxes, since they can be expected to have somewhat higher incomes (see above). At the same time, tax revenues would increase a little, about \$11 million a year.

The economic benefits of immigration reform should not be overstated. This would be a big benefit for undocumented immigrants, but would have modest benefits for the overall economy—we're talking, after all, about just five percent of the overall labor force. But while the benefits should not be exaggerated, they are very real. As Jared Bernstein of the Center on Budget and Policy Priorities put it, "bringing millions of undocumented workers out of the economic shadows isn't just the right thing to do. It's the efficient thing to do."