United States Senate Budget Committee
Jeff Sessions | Ranking Member

CBO: Senate Immigration Bill Increases On-Budget Deficit, Increases Unemployment, Depresses Wages

New Obamacare Spending Alone Adds $82B In Cost Over Next Decade

This week, the Congressional Budget Office (CBO) released two documents analyzing the budgetary and economic effects of the immigration legislation currently before the Senate (S. 744). The fiscal cost estimate demonstrates conclusively that the legislation as reported from the Judiciary Committee will increase the costs of welfare benefits provided to newly legalized residents by more than the income taxes and fees that they will pay, resulting in added deficit spending over the next 10 years. The economic analysis concludes that the increase in the labor force will depress average wages and increase unemployment through at least the end of this decade.

Budgetary Effects

CBO estimates that the addition of millions of newly-legalized residents will increase federal spending by $262 billion over the next 10 years. Of that amount, $259 billion is attributable to spending for programs other than Social Security, known as on-budget spending, while $3 billion is for Social Security, which is off-budget, but included in estimates of the effects of legislation. Increased revenues from those immigrants totals $245 billion from income taxes and new fees included in the legislation and $214 billion from payroll taxes dedicated to Social Security. Accordingly, S.744 would increase on-budget deficits by $14 billion, while lowering off-budget deficits by $211 billion.

New Spending By Immigrant Class: Although there are significant costs associated with providing legal status to current illegal immigrants, the largest driver of additional benefits under the legislation actually comes from the migration of family members of individuals newly authorized to live in the United States (also known as chain migration). As shown in the table below, these categories of migration will increase benefit costs by $25.8 billion and $74.8 billion, respectively. The temporary worker programs for low-skilled agricultural and nonagricultural employees will add $13.4 billion in benefit costs. Note that these figures exclude higher spending for refundable tax credits, which are not enumerated by type of immigrant in the CBO estimate. It is likely that a substantial portion of those refundable credits will be received by beneficiaries of legalization programs and low-skilled temporary workers.

Effects on Mandatory Federal Benefits Programs
By Immigrant Category
2014-2023 Total, In $ Billions

Family-Based Admissions (incl. backlog)	74.8
Legalization Programs	25.8
Low-Skill Temporary Workers	13.7
Employment-Based Admissions	7.5
Temporary Admissions	5.8
High-Skilled Temporary Workers	0.2
Other	-1.4
Refundable Tax Credits[a]	132.5
Total	258.9

[a] Primarily the outlay portion of the earned income, child, and premium assistance tax credits. Also includes unemployment insurance and costs for the Supplemental Security Income Program for the English language waiver. Data are not provided by immigrant status.

New Spending By Benefit Program: Much of the new spending would be paid out through tax refunds issued by the Internal Revenue Service. As shown in the table below, $126.8 billion of the new spending will be for checks issued to subsidize the wages of newly legalized residents and the cost of rearing their children. Fraud is known to be rampant in the earned income tax program, so these figures may be conservative.

Effects on Mandatory Federal Benefits Program
By Benefit Program
2014-2023 Total, In $ Billions

Earned Income and Child Tax Credit Refunds	126.8
Health Insurance Subsidies	82.3
Medicaid and CHIP	29.3
SNAP (food stamps)	6.0
Unemployment Insurance	5.1
Child Nutrition Programs	3.5
Social Security (off-budget)	2.9
Other (Medicare, SSI, Higher Education Assistance)	3.0
Total	258.9

Health care benefits would add about $112 billion of the higher benefits costs in the next 10 years. Obamacare health insurance subsidies add $82.3 billion, while Medicaid and the Children's Health Insurance Program (CHIP) add $29.3 billion. CBO estimates that, by 2023, 85 percent of the increased Obamacare costs are attributable to immigrants who entered the country through family-based admissions, the low-skill temporary worker program, and the amnesty offered to agricultural workers. CBO also estimates that about half of the increased Medicaid costs are attributable to family-based admissions, including clearing the backlog of approved visa applicants.

During the second decade (2024-2033), spending for Obamacare, Medicaid and CHIP will account for roughly half ($400 billion) of the new spending projected to occur as a result of the bill. Although spending for Medicare and Social Security will make up only a small share of the new spending over the first 10 years, according to the CBO estimate, **spending for these entitlement programs will be significantly higher in the second decade as the immigrant population gets older and establishes sufficient work history to qualify for federal benefits**. CBO notes that, by 2033, spending on Medicare and Social Security will account for more than 20 percent of the new spending under the bill.

Effect on State Spending: The costs of the Medicaid program are shared by states and the federal government, and Medicaid is already one of the largest items of spending in state budgets. Mandatory state spending on Medicaid is expected to increase by about $20 billion over 2014-2023 by CBO's estimate; enactment of this legislation would therefore force changes in state budgets in future years in response. State spending may also increase if states choose to enroll legalized illegal immigrants in various state-funded welfare programs—including food assistance, cash welfare, or health programs—before they become eligible for federally funded program benefits.

Revenues and Deficits: CBO and the Joint Committee on Taxation (JCT) estimate that the legislation will have several effects on federal revenues, including changes in collections of income and payroll taxes, some visa fees that are classified as revenues, and various fines and penalties. In total, those agencies estimate that S. 744 would increase federal revenues by $459 billion over the next 10 years. This is a "dynamic" estimate in that it relaxes the standard assumption that employment is held constant at baseline levels; for this estimate, the agencies estimate a net increase in employment and total wages, which results in higher income and payroll taxes.

As noted, a large portion of the revenue increase is in the form of taxes paid into the off-budget Social Security trust fund. Of the $459 billion revenue increase, only $245 billion is from on-budget revenue sources (income taxes and fees). The $214 billion remainder comes from the payroll tax, which is dedicated to the payment of Social Security benefits. The only way that the bill provides benefits to the treasury is through counting taxes dedicated to the Social Security trust fund, which will need to be paid out in benefits in future years.

Excluding the Social Security program, the bill will *increase* the deficit by $14 billion over the next 10 years. The effects of the bill on social welfare programs are not offset by higher income taxes, but only by including taxes that should be dedicated to Social Security. It is a double-count of the trust fund—similar to the gimmick used in the Obamacare legislation that counted Medicare savings as offsets while claiming to boost Medicare program solvency—since those Social Security taxes will be needed to pay Social Security benefits in the future.

Because the CBO/JCT analysis does not provide estimates for the second 10-year period divided into on-budget and off-budget amounts, it is not possible to determine whether the bill continues to increase on-budget deficits over the 2024-2033 period. (The estimate does indicate a unified budget surplus of $690 billion over that timeframe.) It is likely that the off-budget surplus will continue over the second 10 years, but that over a time horizon of 40 to 50 years the legislation would result in off-budget deficits as the newly admitted immigrants begin to retire and draw benefits under the progressive benefit structure of the current Social Security program.

It is worth noting that the CBO cost estimate does not provide estimates of federal revenue increases by category of immigrant, like those shown on the benefits side in the table above. Accordingly, it is impossible based on this estimate for Congress to determine whether a category of immigrant (such as undocumented immigrants or those awarded employment-based admission) provides a net cost or benefit to the federal treasury in even the standard 10-year budget timeframe. Such information would be helpful in evaluating the various components of the legislation and crafting amendments to improve the bill, but CBO and JCT do not provide it in this estimate.

Spending Subject to Appropriations: CBO estimates the future appropriations needed to implement the bill total a net $13.9 billion over the next 5 years, and $22.9 billion over next 10 years. These amounts are above the $11.8 billion in mandatory spending provided for startup costs of the new immigration system. Because appropriations are subject to both future legislative action and caps on discretionary spending through 2021, CBO does not include this $22 billion as part of the $262 billion in increased costs over the first 10 years.

The most significant additional discretionary costs are those necessary to implement the border security measures in the bill.[1] CBO estimates that implementing the border security measures specified in S. 744 would cost $15.2 billion over the next 10 years, including $4.7 billion in 2014. Costs for additional Customs and Border Patrol (CBP) agents alone would exceed $600 million annually by 2017 and total $6 billion over the budget window. The estimate anticipates the Department of Homeland Security (DHS) will hire 3,500 additional CBP agents by end of 2017, add and upgrade border patrol stations along sections of the southwestern border, expand surveillance systems, and purchase additional aircraft and watercraft. The Department of Transportation and General Services Administration are also required to improve existing infrastructure at border crossings, which is included in the $15.2 billion cost.

CBO estimates that implementation of S. 744 would also require an increase in discretionary appropriations for immigration courts, the Department of Justice (DOJ), and the Federal Prison System totaling about $5 billion over 10 years. CBO determined that between 2014 and 2016, DOJ would need to hire 75 immigration court judges per year and increase the number of staff attorneys for the Board of Immigration Appeals by 30 annually to handle increased immigration caseloads and claims. Given the increase in Border Patrol personnel and other security measures along the border, CBO reasoned that there would be an increase in the number and rate of border crossing apprehensions, prosecutions, and sentences. Accordingly, CBO estimated that these additional prosecutions would cost the federal judiciary, U.S. Marshals Service, and U.S. Attorneys $120 million per year. The increase in incarcerations would in turn increase detention-related costs by about $1.6 billion over the budget window.

[1] Additionally, it has been widely reported that some Senators are preparing an amendment that would significantly boost discretionary spending for border security. It is unclear if CBO will revise any of its estimates to determine how the proposed policy changes might impact the overall score.

CBO also examined the costs associated with replacing the current voluntary E-Verify system with a mandatory employment verification system. The agency determined that in addition to the $750 million mandatory appropriation provided in the bill, actual implementation of such a system would cost another $1.4 billion over the next 10 years, which would need to be provided in future appropriations bills.

These additional discretionary costs have the potential to crowd out appropriations for other discretionary programs (such as elementary and secondary education and veterans) while discretionary spending is subject to caps. Over the 2024-2033 period, CBO estimates that net discretionary costs would be between $20 billion and $25 billion, assuming the requisite amounts are provided to implement the legislation.

Economic Effects

While CBO argues that S. 744 would positively affect the economy by boosting capital investment, increasing labor and capital productivity, and increasing inflation-adjusted GDP, the economic effects on workers and families is not as sanguine. CBO estimates increases in the labor force from immigration will depress the average wage for the next 12 years before beginning to increase. Likewise, unemployment rises between 2014 and 2020, and remains at or above baseline thereafter.

Further, CBO estimates that the economic effects of immigration not included in the official cost estimate (primarily changes in taxable income and interest rates) will increase transfer payments (food stamps, unemployment insurance payments, welfare support, etc.) slightly above what is assumed in the static cost estimate and lower tax revenues. This would increase federal budget deficits by about $30 billion over the 2014-2018 period and decrease deficits by about $30 billion over 2019-2023. Over the second decade, those deficit effects would be negligible as a share of GDP.

The CBO documents do not provide estimates of wage or job change for native-born workers, and for the employment changes, immigrant and native-born, by skill and educational categories. Similarly, CBO presents no analysis of how states, regions, or cities with large immigrant populations will be affected. Assumptions regarding these crucial questions powerfully shape estimates of how immigration policy affects the general economy. Because CBO does not provide such information, it is difficult to analyze CBO's approach to evaluating the impact of the immigration policies contained in the bill. Instead, CBO's estimates stand on national averages uninformed by labor market realities.