Center for American Progress

Administrative Action on Immigration Reform

The Fiscal Benefits of Temporary Work Permits

By Patrick Oakford September 2014

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Introduction and summary

In the coming months, President Barack Obama is expected to announce a series of administrative actions on immigration.[1] These actions will come after more than a decade of inaction on immigration reform in Congress, including the House of Representatives' recent refusal to vote on the bipartisan immigration reform bill, S. 744, passed by the Senate last summer.[2] The Congressional Budget Office estimated that S. 744 would significantly reduce our nation's deficit and spur economic growth.[3]

Although any executive action adopted by the president will pale in comparison to the economic and fiscal impact of a comprehensive legislative solution such as S. 744, such actions can nonetheless deliver significant fiscal benefits. This report examines the fiscal impact of a variety of scenarios in which undocumented immigrants are temporarily protected from deportation and authorized to work in the interim.

Confronted by a deteriorating immigration system and continued paralysis in Congress, President Obama requested Secretary of Homeland Security Jeh Johnson and Attorney General Eric Holder to identify which administrative actions could be adopted to begin the process of fixing our immigration system. One of the significant administrative steps the president can take is expanding a policy authorizing undocumented immigrants who are deemed to be low enforcement priorities to affirmatively request deferred action. Deferred action is a temporary, discretionary reprieve from deportation that enables the government to focus its limited resources on high-priority enforcement targets while bringing low-priority individuals out of the shadows. In addition to the obvious enforcement and security benefits that flow from expanding the universe of individuals eligible to register and request this exercise of discretion, enabling these individuals to work lawfully, albeit temporarily, also triggers significant fiscal benefits in the form of additional payroll tax revenues.

Granting deferred action with work permits would increase the amount of payroll tax revenue collected each year. First, by allowing undocumented immigrants to work legally, many workers and employers will be able to emerge from the underground economy and pay payroll taxes for the first time. Today, slightly more than one-third of undocumented workers and their employers are contributing payroll taxes.[7] Providing work permits would create a legal avenue for workers and employers to contribute taxes.

Second, allowing undocumented immigrants to work legally will lead to higher wages. Providing work authorization to eligible undocumented immigrants would equip them with a shield against workplace exploitation and enable them to move freely across the labor market to find jobs that best match their skills. Consequently, undocumented immigrants will observe an increase in their earnings. And as workers' wages rise, so too will their payroll tax contributions.

The magnitude of the tax revenue gains, however, varies based on the number of immigrants eligible for deferred action. There are a number of criteria that President Obama could choose from when determining who will be eligible for deferred action. For example, deferred action may only be available to those who have been in the United States for at least 10 years. Alternatively, the president could extend deferred action to those who would have been able to apply for legal status and citizenship under the immigration reform bill, S. 744, passed by the Senate in June 2013.

In the following analysis, the Center for American Progress estimates the fiscal impact of a deferred action program for each of these groups:

- Undocumented immigrants who have lived in the United States for at least five years.
- Undocumented immigrants who have lived in the United States for at least 10 years.
- Undocumented immigrants who have a minor child living in the United States.

Deferred action

The president has the legal authority and a great deal of latitude when deciding how to enforce our immigration laws in the most efficient and effective way. Just like a local police chief has the ability to decide whether to focus resources on ticketing people for jay walking or arresting people for driving while intoxicated, the president has the legal authority to determine which individuals are a priority for immigration enforcement. This is known as prosecutorial discretion.

One type of prosecutorial discretion policies in the immigration context is "deferred action," which was formerly recognized by the Immigration and Naturalization Services in 1975.[4] A deferred action policy identifies low-priority individuals, such as non-criminals, who are not the target of immigration enforcement efforts, and creates a process for them to come forward and affirmatively apply for temporary relief from deportation. Most recently, this form of discretion was utilized in the Deferred Action for Childhood Arrivals, or DACA, program. DACA was announced in June 2012 and extends to undocumented immigrants who have entered the United States before the age of 16 and meet education requirements such as graduating high school.[5] To date, DACA has successfully allowed the U.S. Department of Homeland Security, or DHS, to better focus its resources on higher priorities by granting temporary reprieves from deportation to nearly 600,000 individuals.[6]

TABLE 1

Fiscal benefits from deferred action

Increase in payroll tax revenues by criteria of eligibility

	Number of eligible undocumented immigrants, in millions	Payroll tax gain in first year, in billions	Cumulative payroll tax gains over five years, in billions
U.S. residency for at least 5 years	9.95	$6.08	$44.96
U.S. residency for at least 10 years	7.4	$4.52	$33.44
Undocumented immigrants with a minor child in the United States	4.7	$2.87	$21.24

Source: Author's calculations. See Methodology.

The analysis shows that the United States stands to gain a significant amount of new revenue from a deferred action program. Most striking is that the payroll tax revenue gains would be realized immediately—within the first year—and only grow over time as more immigrants apply for relief under the program and receive a work permit. The analysis finds:

- Temporary work permits would increase the earnings of undocumented immigrants by about 8.5 percent as they are able to work legally and find jobs that match their skills.

- A deferred action program that allows undocumented immigrants who have lived in the United States for at least five years to apply for a temporary work permit would increase payroll tax revenues by $6.08 billion in the first year alone and increase revenues by $44.96 billion over five years.

- If President Obama instead extends deferred action to a smaller number of undocumented immigrants then the payroll tax revenue gains would not be as high.

This report begins with a discussion of why deferred action would trigger an increase in tax revenues. It then presents the findings of the CAP analysis that quantifies the increase in payroll tax revenues that would result from extending deferred action to undocumented immigrants.

Putting millions of workers and employers on the tax rolls

Our broken immigration system has created a situation in which millions of undocumented immigrants are working, yet none of them have a legal avenue to contribute payroll taxes.[8] Thus, billions of dollars are lost every year in tax revenues. A deferred action program, which allows undocumented immigrants to apply for a temporary work permit, would correct these inadequacies of our current system and increase payroll tax revenues by increasing the number of people paying taxes.

There are currently 8 million undocumented immigrants in the United States who are working in a variety of industries, from agriculture to manufacturing.[9] While these workers are vital to our economy and workforce, there is no legal way for them to pay payroll taxes: Given their unlawful status and inability to work legally, these workers are unable obtain a Social Security number and therefore cannot file payroll taxes like other American workers.[10]

Despite this structural shortcoming, the Social Security Administration, or SSA, has estimated that about 3 million undocumented workers and their employers paid payroll taxes in 2010, or about 38 percent of the estimated 8 million undocumented workers.[11] According to the SSA, many of these workers likely pay payroll taxes through the use of false Social Security numbers.[12] While these workers' contributions have been significant, they are far less than what they could be if the United States created the opportunity for undocumented workers to both legally work and pay taxes.

Under a deferred action program, undocumented immigrants whose applications for a work permit have been approved would receive an Employment Authorization Card, or EAC.[13] These cards contain a unique nine-digit number. Similar to a Social Security number, an EAC proves that an individual is eligible to work legally and allows him or her to fill out the needed IRS forms with an employer to contribute payroll taxes. Given that only a minority of undocumented workers and their employers are currently paying payroll taxes, providing undocumented immigrants with EACs would lead to a significant increase in the number of workers and employers contributing payroll taxes. Ultimately, extending a work permit to undocumented immigrants will create a path for those already working in the United States to come forward and pay taxes.

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Higher wages for workers, increased tax revenues for America

In addition to putting more employers and workers on the books, tax revenues would increase because the acquisition of a temporary work permit would likely increase the earnings of undocumented immigrants for two main reasons:

- It enables workers to shed the negative effect their immigration status has on their earnings.
- It allows undocumented workers to have full access to the labor market, enabling them to find jobs that match their skills and maximize their earnings.

Since payroll tax contributions are based on an employee's wages, as an employee's earnings increase, their tax contributions generally increase as well.[14]

Eliminating negative wage effects of undocumented status

The interaction between our broken immigration system and employment and labor laws have made undocumented workers more susceptible to exploitation in the workplace, leading them to earn lower wages than they otherwise could.

Undocumented immigrants, while not legally allowed to work in the United States, are still covered by many U.S. employment and labor laws, such as minimum-wage requirements and the right to organize a union.[15] Despite having the same workplace rights as other American workers, undocumented immigrants in practice are not able to execute their workplace rights, making them more vulnerable to exploitation.[16] Given that in recent history, immigration officials have conducted enforcement actions in the interior of the country at workplaces or roadside checkpoints, rather than just at the border, many undocumented workers are fearful of coming forward and identifying employer wrongdoing.[17] Similarly, employers use their duty to check workers' immigration status under IRCA as a tool to deter employment complaints or to retaliate against undocumented immigrants who file such complaints.[18] Thus, unscrupulous employers are able to take advantage of undocumented immigrants with minimal fear of being caught or penalized for their unlawful employment practices.

As a result of this tension between our immigration and employment laws, researchers have found that undocumented immigrants are nearly two times more likely to be paid below minimum wage than native-born workers.[19] Similarly, a study of undocumented workers in Chicago found that these workers were three times more likely than documented immigrants to experience wage theft—such as nonpayment or underpayment of wages[20] —and 1.8 times more likely to work in unsafe conditions.[21]

Providing a temporary work permit would remove the vulnerability associated with unlawful immigration status and diminish the likelihood of employers exploiting undocumented workers. Moreover, in the event that workers are still exploited, they will be better positioned to exert their workplace rights, since they will not be afraid that invoking their rights will result in deportation. In short, allowing undocumented immigrants to work legally decreases their workplace vulnerability, and their earnings will likely rise as a result.

Undermining undocumented immigrants' workplace rights harms all workers

In the United States, labor and employment laws are most effective when everyone covered by these laws are able to execute their rights. Stifling undocumented workers employment rights, therefore, means that all workers are at a greater risk of being victims of unlawful employment practices. Most employment investigations are initiated by individual workers filing complaints against their employers. Thus, if undocumented immigrants are not able to report an employer's illegal practices, then all workers who are victims of this wrongdoing are less likely to receive relief. In addition, penalties imposed on employers aim not only to correct a specific instance of wrongdoing but also to deter other businesses from engaging in similar unlawful practices. The likelihood of other employers engaging in unlawful actions against American workers, therefore, increases as the deterrence effect of enforcing labor and employment laws is weakened by undocumented immigrants' inability to file formal complaints.

Increasing undocumented immigrants' labor-market mobility

There are millions of undocumented immigrants already working in our economy in a variety of jobs. Their experience in the labor market at large, however, is very different than that of legal workers. Since it is illegal for employers to knowingly hire an undocumented immigrant, these workers often self-select into jobs that minimize their risk of being detected as an undocumented immigrant and ultimately deported.[22] The result is that undocumented workers frequently find themselves in low-wage jobs with little opportunity for upward occupational mobility.[23] Unlike other workers in the labor market who can maximize their earnings by finding jobs that best match their skills and abilities, undocumented immigrants cannot do this and therefore ultimately earn less than they otherwise could.[24]

For example, higher levels of education generally lead to higher earnings: A person with a high school degree is likely able to make more money than a person who has not graduated from high school, and so on. The relationship between education and earnings, however, is drastically different for undocumented immigrants than it is for legal immigrants.[25] One study found that legal Mexican immigrants' wage returns on education attainment were double the returns observed by undocumented Mexican immigrants.[26]

A temporary work permit would give undocumented workers greater labor-market mobility, allowing them to realize the wage potential of their skills. The ability to work legally allows undocumented immigrants to access jobs that value their human capital and compensate them fairly for it.

Estimating the fiscal benefits of administrative action

It is clear from the discussion above that deferred action would increase payroll tax revenues, but by how much?

If President Obama takes administrative action, there are many groups of undocumented immigrants who might benefit from deferred action. For example, the president could extend a deferred action program to undocumented immigrants who have been in the United States for at least five years, or he could extend the program to a smaller group, such as undocumented immigrants with minor children in the United States. In the following analysis, CAP estimates fiscal benefits if a deferred action program were available to three different groups of undocumented immigrants. (see Table 2)

After considering the wage effects of acquiring legal status and analyzing current wage gaps between undocumented and legal immigrants, it is reasonable to expect undocumented immigrants' wages to increase by about 8.5 percent under a deferred action program. (see the Appendix for a full discussion of the wage effects of deferred action) Moreover, the analysis assumes that undocumented immigrants who receive a work permit would have similar labor-force participation and employment rates as legal, noncitizen immigrants. Finally, since 38 percent of undocumented immigrants are already paying payroll taxes, the analysis assumes that the remaining 62 percent of undocumented workers will go on the books for the first time. (see the Appendix for a full discussion of the methodology)

TABLE 2

Fiscal benefits from deferred action

Increase in payroll tax revenues by criteria of eligibility

	Number of eligible undocumented immigrants, in millions	Payroll tax gain in first year, in billions	Cumulative payroll tax gains over five years, in billions
U.S. residency for at least 5 years	9.95	$6.08	$44.96
U.S. residency for at least 10 years	7.4	$4.52	$33.44
Undocumented immi-grants with a minor child in the United States	4.7	$2.87	$21.24

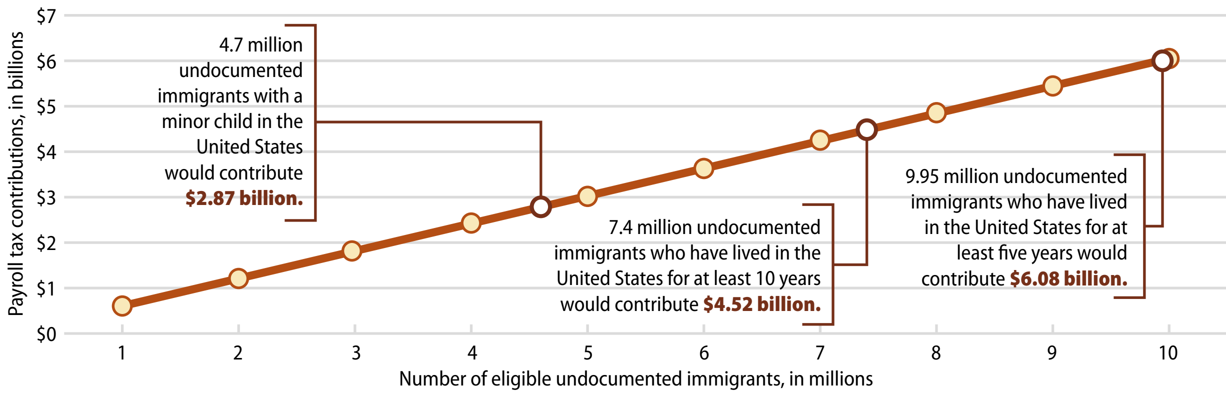
Source: Author's calculations. See Methodology.

This analysis shows that the United States would observe significant increases in payroll tax revenues if any of these groups were eligible for work permits under a deferred action program. Most notably, the analysis illustrates that benefits would begin accruing immediately. Within the first year of a program being established, U.S. tax revenues would increase by $6.08 billion, if undocumented immigrants with at least five years of U.S. residency were eligible to apply.[27] Since not all eligible individuals will be able to apply and receive a permit within the first year, the tax gains will continue to rise as more immigrants receive their temporary work permit. Over five years, the benefits would only continue to grow to an estimated total of $44.96 billion.[28]

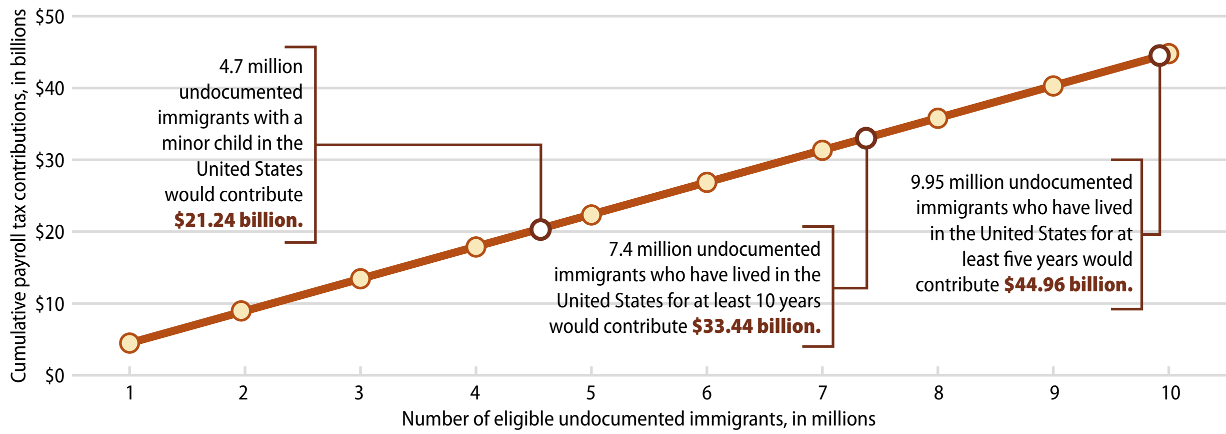
FIGURE 1

Payroll tax revenue gains from deferred action

First-year increase in payroll tax revenues by number of eligible immigrants



Cumulative payroll tax revenue gains over five years by number of eligible undocumented immigrant



Source: Author's calculations. See Methodology.

Similarly, if undocumented immigrants with minor children in the United States were able to apply for deferred action, tax revenues would increase by an estimated $2.87 billion in the first year and grow to an estimated $21.24 billion over five years.[29] These findings indicate that the larger the number of undocumented immigrants who are covered by a deferred action program, the larger the tax revenue gains will be. Therefore, it would be in the United States' financial interest to ensure that as many immigrants as possible who are eligible for a deferred action program are able to apply and receive work permits as soon as possible.

Impact of deferred action on American workers

The impact of providing temporary work permits to undocumented immigrants would not negatively affect American workers' job opportunities or their wages. While an undocumented immigrant will have greater access to the labor market and be able to apply for a wider range of jobs, this will not increase labor-market competition for native-born workers. This is because undocumented immigrants—despite greater mobility in the labor market—will not be applying for the same jobs as native-born workers. For a better understanding of why providing work permits to undocumented immigrants will not increase competition for native-born workers, consider the current labor-market relationship between legal immigrant workers and the native born.

Researchers have long found that immigrants at large—not just undocumented immigrants—and native-born workers do not compete for the same jobs; instead, they often complement each other in the workforce as immigrants and native-born workers tend to work in different industries.[30] Even when they do work in the same industries, immigrants and native-born workers often occupy different jobs.[31] For example, immigrants make up 31 percent of all workers in the accommodation sector,[32] but these workers are not distributed evenly across jobs within the industry. Instead, the majority of immigrants work within only five occupations in the accommodation industry and fill 53 percent of all housekeeping jobs in the sector. Conversely, the majority of native-born workers are concentrated in higher skilled jobs and account for nearly 90 percent of all desk clerks in the industry.[33]

The experience of the broader, legal immigrant population in the labor force indicates that providing greater labor-market mobility to immigrants would not take jobs away from Americans but instead would allow them to enter jobs that complement the work of native-born workers.

Similarly, undocumented immigrants' increase in earnings will not have a negative wage effect on native-born workers. The reasoning is straightforward: As immigrants earn more, they will spend more, leading to greater demand for goods and services and potentially higher profits for businesses. This will likely result not only in job creation but also in higher wages for all workers as the economy grows.[34]

The fiscal benefits of providing deferred action are significant, but they are far less than the fiscal and economic benefits of legislative immigration reform. As the analysis shows, the fiscal benefits of deferred action stem in part from the increase in earnings it would generate for undocumented immigrants. While deferred action will lead to an estimated 8.5 percent increase in wages, another CAP study shows that legislative reform that provides a pathway to citizenship would result in a 25 percent boost in earnings—meaning tax contributions and economic growth would be larger.[35] The reason why legislative reform provides a higher wage increase is simple: The permanent nature of this reform creates an incentive for immigrants to invest in their education, which subsequently raises wages further. Moreover, researchers have found that the acquisition of citizenship is associated with a 10 percent increase in wages.[36] Comprehensive reform that includes a pathway to citizenship will, therefore, further boost immigration earnings, leading to bigger fiscal and economic impacts.

Conclusion

A deferred action program that provides both a temporary reprieve from deportation and a work permit for millions of undocumented immigrants would offer much needed relief to American families and would mark an important step toward fixing our broken immigration system. But it isn't just immigrant families that would benefit from this program: All Americans would be better off as the program would increase U.S. tax revenues.

Our current broken immigration system has pushed undocumented work underground and resulted in the loss of billions of dollars in payroll taxes every year. A deferred action program would help fix this problem by allowing undocumented immigrants to apply for a temporary work permit, work legally, and move freely around the labor market to find jobs that best suit their skills. This would result in more workers being on the books and paying taxes, in addition to earning higher wages, resulting in a further boost in payroll tax revenues.

In the first year of a deferred action program alone, the United States stands to gain $6.08 billion in payroll taxes.[37] While these gains are significant, they are far less than the fiscal and economic benefits of full legislative reform. A pathway to citizenship would provide a greater increase in undocumented immigrants earnings and therefore generate a greater cascade of fiscal and economic benefits. In fact, the Congressional Budget Office has estimated that the Senate's immigration reform bill S. 744 would reduce the nation's deficit by $135 billion over 10 years.[38] The analysis in this report shows that it is in all Americans' best interest for President Obama to establish an expanded deferred action program to begin to fix our broken immigration system.

About the author

Patrick Oakford is a Policy Analyst in the Economic and Immigration Policy departments, where he has helped lead the organization's analysis on the economic and fiscal impacts of immigration reform. His research focuses on issues relating to U.S. immigration policy, the labor force, and demographic changes in the United States. Patrick holds an M.Sc. in migration studies from the University of Oxford and a B.S. in industrial and labor relations from Cornell University. Prior to joining American Progress, Patrick spent time researching state-level immigration laws and the intersection of immigration and employment law as a research fellow at Cornell.

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Appendix

Methodology

Estimating the wage gains of a temporary work permit

In general, the effects of legalization on undocumented immigrants' wages are the function of three things:

- Changes in characteristics and human capital
- Changes in the returns on human capital
- The removal of discriminatory effect of one's undocumented status

Under a deferred action program, one would expect wages to increase due to the last two factors: A temporary work permit would increase labor-market mobility and would remove undocumented immigrants' vulnerability to exploitation. It should be noted, however, that a temporary work permit may spur undocumented immigrants to invest in their human capital. In this analysis, we do not account for that effect as there is not a good indication of how much investment might occur.

In this report's analysis, CAP assumes that deferred action would increase the undocumented immigrants' wages by 8.5 percent. This estimate is the midpoint between two different estimates of wage increases that might occur under a deferred action program. While no one can be completely certain about what will happen to undocumented immigrants' future earnings, we considered likely increases under two approaches:

- Historical: We can use the experience of immigrants in previous legalization programs to glean what might happen to undocumented immigrants' earnings under a deferred action program.

- Current disparities: The current wage differentials between undocumented immigrants and legal immigrants serve as a good indication of how much a worker's wages would increase as a result of receiving a temporary work permit.

Lessons from the Immigration Reform and Control Act

The United States passed the Immigration Reform and Control Act, or IRCA, in 1986, which legalized nearly 3 million undocumented immigrants in the United States.[39] In the years following the enactment of IRCA, the United States conducted an extensive survey of recipients of legal status. Through this survey, researchers were able to identify the wage gains undocumented immigrants experienced after receiving legal status. The Department of Labor estimated that on average, immigrants' earnings increased by 15 percent.[40] Similarly, Rivera-Batiz found that on average, immigrants' earnings increased by 17.7 percent. This wage gain, however, is not just the result of correcting the negative consequences of a worker's undocumented status; it also reflects undocumented immigrants' investments in their human capital, such as increasing their level of education.

While a deferred action program would likely increase undocumented immigrants' wages, the temporary nature of the program may not create the same incentive for undocumented immigrants to invest in their human capital. Thus, using immigrants' wage gains under IRCA as an estimate of the potential increase in earnings under a deferred action program requires isolating the increase in wages that were due to immigrants' change in legal status alone.

Through the use of a Blinder-Oaxaca wage decomposition,[41] researchers have been able to identify which share of the wage increase under IRCA is attributed to immigrants' change in legal status and how much is due to changes in human capital and other characteristics. Francisco Rivera-Batiz found that 40 percent of the observed wage gain by undocumented immigrant under IRCA was due to changes in their education attainment, language skills, and other measurable characteristic, while 60 percent of the boost in earnings cannot be explained.[42] In describing this portion of the wage gap, Rivera-Batiz writes that the unexplained wage gains "strongly suggest that the change in the legal status of [undocumented] immigrants had a strong positive effect on their earnings."[43] In other words, the unexplained portion of the wage decomposition can be viewed as a proxy for the increase in earnings due to a change in legal status. Thus, under IRCA, undocumented immigrants observed a 10.5 percent wage increase as a result of acquiring legal status.

Similar to the immigrants who received legal status through IRCA, undocumented immigrants who could apply for deferred action would be able to shed the negative wage effects of their unlawful immigration status. Thus, Rivera-Batiz's analysis of undocumented immigrants' experiences under IRCA provides a good estimate of how much the earnings of undocumented immigrants would increase if they were eligible for deferred action. To be sure, some of the unobservable wage increases in Rivera-Batiz's analysis may be due to less easily measurable changes in characteristics such as health outcomes. However, the changes that occurred as a result of changes in legal status under IRCA would likely also occur under deferred action as well.

Current wage disparities between undocumented immigrants and legal immigrants

A second approach to estimating the wage increase of undocumented immigrants if they received a temporary work permit is to identify the current wage penalty for being undocumented.

Using the American Community Survey, or ACS, CAP first identified likely undocumented Mexican immigrants and legal noncitizen Mexican immigrants through an augmented residual method.[44] Specifically, CAP used year of entry, government employee status, recipient of welfare benefits, veteran status, occupation, health insurance coverage, and other indicators to identify likely undocumented Mexican immigrants in the ACS. CAP then estimated that the wage gap between undocumented Mexican immigrants and legal noncitizen Mexican immigrants is 9.89 percent. CAP conducted a Blinder-Oaxaca wage decomposition to identify which portion of the wage gap is due to difference in measurable characteristics between the two groups. In the analysis, we controlled for the following: age, sex, marital status, number of children, English language abilities, education attainment, recent entry into the United States, self-employment status, and average hours of work.

CAP found that differences in measurable characteristics can explain 34 percent of the 9.89 percent wage gap, meaning that there is a 3.4 percent wage gap between undocumented Mexican immigrants and legal noncitizen Mexican immigrants as a result of difference in group characteristics.[45]

Most importantly, however, the wage decomposition illustrated that 66 percent of the 9.89 percent wage gap between the two groups cannot be explained by measurable characteristics. In other words, there is a 6.5 percent wage gap between undocumented Mexican immigrants and legal noncitizen Mexican immigrants due to reasons not explained by measurable characteristics. This 6.5 percent wage gap is a reasonable estimate of the negative wage impact that undocumented immigrants experience due to their legal status.[46] These findings are consistent with other studies. For example, Mathew Hall and his co-researchers found that, when controlling for other characteristics, legal status was associated with a 2.73 percent wage advantage for Mexican women and a 7.42 percent wage advantage for Mexican men.[47]

CAP selected to use a Blinder-Oaxaca wage decomposition for two reason: First, to ensure that the approach was similar and consistent with that used by Rivera-Batiz; but more importantly, because it is a common approach when attempting to quantify the wage impact of discrimination in the workplace. Similar to discrimination based on race or sex, the negative wage effects of an undocumented status are the result of discrimination and or exploitation by employers on the basis of a worker's immigration status. Therefore, the use of a Blinder-Oaxaca wage decomposition is a reasonable way to quantify the negative wage impact of a workers unlawful status.

Similar to the conclusions that can be drawn from Rivera-Batiz's study, CAP's analysis indicates that undocumented Mexican immigrants' wages will increase by about 6.5 percent with the acquisition of a temporary work permit, as it would eliminate the negative wage effects associated with their undocumented status.

Estimating payroll tax contributions

CAP estimated the increase in payroll tax revenues contributed by undocumented immigrants and their employers by identifying which share of undocumented immigrants already pay payroll taxes, estimating undocumented immigrants' earnings, and the wage increase that would result from acquiring a temporary work permit. The analysis assumes that 38 percent of undocumented immigrants already pay taxes, meaning that 62 percent of undocumented immigrant would contribute payroll taxes for the first time. Using the sample of likely undocumented Mexican immigrants, CAP estimates that the average earnings of undocumented workers is $22,029. The analysis assumes that earnings of undocumented immigrants would increase by 8.5 percent. This number is the midpoint between the wage gains estimated under the two approaches discussed above.

Under this analysis, CAP utilized the application rates observed under DACA and assumes that similar application rates would occur under a deferred action program. Specifically, CAP utilized a 62 percent application rate in the first year and raised it to 68 percent by the second year based on DACA. Recognizing that applications would be filed over the course of two years, CAP phased in the acquisition of temporary work permits over the first two years, meaning the payroll tax benefits are also phased in. Moreover, CAP applied the labor-force participation rate and unemployment rates of noncitizen immigrants to the undocumented population under deferred action.

Literature review

There are multiple studies that have considered IRCA's effect on the wages of formerly undocumented immigrants. A review of the literature below is divided into studies that identify the wage impact of legalization and wage disparities between undocumented workers and legal workers.

Wage impact of legalization

Department of Labor (1996)

Charged by Congress to investigate the social and economic characteristics of undocumented immigrants who were legalized under IRCA, the Department of Labor, or DOL, released a report in 1996 that, in part, identified what happened to the earnings of formerly undocumented immigrants five years after legalization. Specifically in this study, the DOL compared the earnings of undocumented immigrants at the time they applied for legal status to their earnings in 1992. The report found that legalized workers' earnings rose on average by 15 percent. The DOL utilized the Legalized Population Survey to make these estimates and only studied those immigrants who received legal status under section 245A of the Immigration and Nationality Act.[48]

Sherrie A. Kossoudji and Deborah A. Cobb-Clark (2002)

In this study, Kossoudji and Cobb-Clark aimed to determine whether observed changes in formerly undocumented immigrants' wages were the result of the acquisition of legal status or merely changes in the labor market, which affect wages. In order to answer this question, the authors compared the changes in undocumented immigrants' earnings in the Legalization Population Survey, or LPS, to a group of legal workers in the National Longitudinal Survey of Youth. The authors first found that legalization lead to a change in the wage determinants of formerly undocumented immigrants. Specifically, they found that lack of English language ability after legalization led to higher wage penalties. They also found that post legalization, workers received higher returns on their education levels, with the greatest increase on returns occurring for those with higher than a high school education. When taking into account the changes that occurred to the wages of the comparison group between 1986 and 1992, the authors concluded that the earnings of undocumented immigrants increased by 6 percent as a result of changes in returns on human capital. This estimate does not include increases in earnings as a result of changes in human capital.[49]

Francisco L. Rivera-Batiz (1999)

As described in the report above, Rivera-Batiz compared undocumented workers' wages before legalization to their earnings after they acquired legal status. Rivera-Batiz utilized the LPS to conduct this analysis. Similar to the DOL study, he found that wages of formerly undocumented men increased by 14.8 percent and the wages of women increased by 20.6 percent. On average, he found that 40 percent of the wage gains were due to changes in human capital and other characteristics.[50]

Wage disparity

Similar to the analysis CAP performed to identify the wage disparity between legal and undocumented immigrants, there are other studies that have compared the earnings of legal workers to that of undocumented workers. The following is a brief review of the most recent literature.

Sherrie A. Kossoudji and Deborah A. Cobb-Clark (2002)

In addition to looking at legalization's impact on earnings, Kossoudji and Cobb-Clark also identified the wage gaps between undocumented and legal workers prior to legalization. The authors compared earnings of undocumented immigrants as reported in the LPS survey to those of legal workers—both immigrants and natives—in the National Longitudinal Youth Survey. The authors found that if undocumented immigrants had received the wage returns of legal workers, their earnings would be 14 percent to 26 percent higher. It should be noted, however, that the authors were comparing undocumented immigrants to both legal immigrants—citizens and noncitizens—in addition to native-born workers. The authors' comparison group is much broader than that used in CAP's analysis, and therefore the result from this study is expected to be larger than that of CAP's since both legal status and citizenship are associated with higher earnings.[51]

Mathew Hall and others (2010)

This study's authors compared the wage disparity between legal Mexican immigrants to undocumented Mexican immigrants as reported in the Survey of Income and Program Participation. Additionally, the authors identified differences in wage determinants between these two groups. Similar to Kossoudji and Cobb-Clark, this study also found that undocumented workers received lower returns on their human capital, specifically education, than legal immigrants. With respect to the authors' analysis of wage disparities, they found that after controlling for human capital, undocumented men earned 7.5 percent less than legal immigrant men, and women earned 3.8 percent less than legal immigrant women.[52]

Endnotes

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6 U.S. Citizenship and Immigration Services, "Data Set: Deferred Action for Childhood Arrivals," available at http://www.uscis.gov/tools/reports-studies/immigration-forms-data/data-set-deferred-action-childhood-arrivals (last accessed August 2014).

7 The Social Security Administration estimates that 3 million undocumented immigrants contribute payroll taxes. This suggests that of the 8 million undocumented immigrants who are working in the United States, 38 percent are paying payroll taxes. Stephen Goss and others, "Effects of Unauthorized Immigration on the Actuarial Status of the Social Security Trust Funds" (Baltimore: Social Security Administration, 2013), available at http://www.socialsecurity.gov/oact/NOTES/pdf_notes/note151.pdf; Pew estimates that there are 8 million undocumented workers. Jeffrey S. Passel and D'Vera Cohn, "Unauthorized Immigrant Population: National and State Trends, 2010" (Washington: Pew Research Hispanic Trends Project, 2011), available at http://www.pewhispanic.org/2011/02/01/v-workers/.

8 Under the Immigration Reform and Control Act, it is unlawful for employers to knowingly hire undocumented immigrants (8 USC Sec 1324 a). Despite this prohibition, many undocumented immigrants have found work, but given their unlawful status, they do not have a valid Social Security card and therefore cannot file payroll taxes. It should be noted, however, that self-employed undocumented immigrants can file payroll taxes by utilizing an Individual Tax Identification Number. See Social Security Administration, "Self-Employment Tax (Social Security and Medicare Tax)," available at http://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/Self-Employment-Tax-Social-Security-and-Medicare-Taxes (last accessed August 2014).

9 Passel and Cohn, "Unauthorized Immigrant Population: National and State Trends, 2010."

10 Social Security Administration, "Social Security Numbers for Noncitizens" (2013), available at http://www.ssa.gov/pubs/EN-05-10096.pdf. Again, it should be noted that self-employed undocumented immigrants are able to file payroll taxes through the use of an Individual Tax Identification Number. See Social Security Administration, "Self-Employment Tax (Social Security and Medicare Tax)."

11 Goss and others, "Effects of Unauthorized Immigration on the Actuarial Status of the Social Security Trust Funds."

12 Ibid.

13 National Immigration Law Center, "Frequently Asked Questions: DACA and Your Workplace Rights" (2014).

14 It should be noted that there is a limit on the amount of earnings that are subject to payroll taxes. In 2014, the cap on earnings that can be taxed was $117,000. See Social Security Administration "Contributions and Benefit Base," available at http://www.ssa.gov/oact/cola/cbb.html (last accessed August 2014).

15 In the United States, most labor and employment laws, such as the Fair Labor Standards Act or the National Labor Relations Act, cover any worker who is an "employee." In *Rutherford Food Corp v. McComb* (331 U.S. 722), the Supreme Court ruled that when determining whether or not a worker qualifies as an "employee," courts need only consider the day-to-day interaction between the worker and the employer. Thus, a worker's immigration status has no bearing on whether or not they are an "employee" under U.S. labor and employment laws. For a complete discussion of undocumented immigrants protections under U.S. employment and labor law, see Kati Griffith, "U.S. Migrant Worker Law: The Interstices of Immigration Law and Labor and Employment Law," *Comparative Labor Law and Policy Journal* 125 (31) (2009).

16 Adriana Kugler and Patrick Oakford, "Comprehensive Immigration Reform Will Benefit American Workers" (Washington: Center for American Progress, 2013), available at http://www.americanprogress.org/issues/immigration/report/2013/09/12/74014/comprehensive-immigration-reform-will-benefit-american-workers/.

17 Shannon Gleeson, "Labor Rights for All? The Role of Undocumented Immigrant Status for Worker Claims Making," *Law and Social Inquiry* 35 (3) (2010): 561–602, available at http://onlinelibrary.wiley.com/doi/10.1111/j.1747-4469.2010.01196.x/abstract.

18 For a discussion on how employers use their immigration duties to stifle workers' employment rights, see Kugler and Oakford, "Comprehensive Immigration reform Will Benefit American Workers."

19 Annette Bernhardt and others, "Broken Laws, Unprotected Workers: Violations of Employment and Labor Laws in America's Cities" (Washington: National Employment Law Project, 2010), available at http://www.unprotectedworkers.org/index.php/broken_laws/index.

20 Chirag Mehta and others, "Chicago's Undocumented Immigrants: An analysis of Wages, Working Condition, and Economic Contributions" (Chicago: Center for Urban Economic Development, 2002), available at http://www.williamperezphd.com/articles/mehta-theodore-mora-wade-2002.pdf.

21 Ibid.

22 Sherrie A. Kossoudji and Deborah A. Cobb-Clark, "Coming out of the Shadows: Learning about Legal Status and Wages from the Legalized Population," *Journal of Labor Economics* 20 (3) (2002): 598–628.

23 For a discussion of wage mobility of undocumented immigrants and a review of literature on the occupational mobility of undocumented immigrants, see Marta Tienda and Audrey Singer "Wage Mobility of Undocumented Workers in the United States," *International Migration Review* 29 (1) (1995): 112–138. For a breakdown of which industries undocumented immigrants work in see, Jeffrey S. Passel and D'Vera Cohn, "A Portrait of Unauthorized Immigrants in the United States" (Washington: Pew Hispanic Center, 2009).

24 Kossoudji and Cobb-Clark estimate that if undocumented immigrants had the same return on human capital as legal immigrants, their earnings would be 14 percent higher. See Kossoudji and Cobb-Clark, "Coming out of the Shadows."

25 Matthew Hall, Emily Greenman, and George Farkas, "Legal Status and Wage Disparities for Mexican Immigrants," *Social Forces* 89 (2) (2010): 491–513, available at http://muse.jhu.edu/journals/social_forces/summary/v089/89.2.hall.html.

26 Ibid.

27 Author's calculations. See Appendix for full methodology.

28 Author's calculations. See the Appendix for full methodology.

29 Author's calculations. See the Appendix for full methodology.

30 Gianmarco Ottaviano and Giovanni Peri, "Rethinking the Effect of Immigration on Wages," *Journal of the European Economic Association* 10 (1) (2012): 152–197, available at http://onlinelibrary.wiley.com/doi/10.1111/j.1542-4774.2011.01052.x/abstract. In this piece, the authors not only estimate the wage impact of immigrants on native-born workers but also identify that immigrants and natives are imperfect substitutes.

31 Audrey Singer, "Immigrant Workers in the U.S. Labor Force" (Washington: The Brookings Institution, 2012), available at http://www.brookings.edu/~/media/research/files/papers/2012/3/15%20immigrant%20workers%20singer/0315_immigrant_workers_singer.pdf.

32 Ibid.

33 Ibid.

34 For a review of the literature on the impact of immigrants on the wages of native-born workers, see Heidi Shierholz "Immigration and Wages: Methodological advancements confirm modest gains for native workers" (Washington: Economic Policy Institute, 2010). Shierholz also found in this study, through an original analysis, that native-born workers had a slight increase in earnings as a result of immigration.

35 Robert Lynch and Patrick Oakford, "The Economic Effects of Granting Legal Status and Citizenship to Undocumented Immigrants" (Washington: Center for American Progress, 2013), available at http://www.americanprogress.org/issues/immigration/report/2013/03/20/57351/the-economic-effects-of-granting-legal-status-and-citizenship-to-undocumented-immigrants/.

36 Ibid. Other researchers have found a similar increase in earnings with the acquisition of citizenship. For example, Heidi Shierholz found that naturalized citizens had family incomes that were 15 percent higher that of noncitizen immigrants. Heidi Shierholz, "The Effects of Citizenship on Family Income and Poverty" (Washington: Economic Policy Institute, 2010).

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43 Ibid.

44 Bureau of the Census, *American Community Survey, 2012* (U.S. Department of Commerce, 2012).

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46 Ibid.

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48 U.S. Department of Labor,"*Effects of the Immigration Reform and Control Act: Characteristics and Labor Market Behavior of the Legalized Population Five Years following Legalization*" (1996).

49 Kossoudji and Cobb-Clark, "Coming out of the Shadows."

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51 Kossoudji and Cobb-Clark "Coming out of the Shadows."

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