Center on Budget and Policy Priorities

820 First Street NE, Suite 510
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

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CBO ESTIMATE SHOWS THE SENATE IMMIGRATION BILL'S BUDGET IMPACT IS VERY MODEST

by James Horney

Yesterday the Congressional Budget Office issued an analysis that clearly refutes claims that the immigration bill being considered by the Senate would "bust the budget" and that indicates the bill would likely have little effect on deficits. CBO's cost estimate of the legislation concludes that "the net impact on the unified budget would remain relatively small in the context of the overall budget."[1]

CBO assumes that even if future Congresses appropriate the full amount of discretionary (annually appropriated) funding that the bill authorizes for border enforcement and for other efforts to deter undocumented immigrants, the legislation would increase the unified federal budget deficit by only "several billion dollars a year" by 2027; even if "several" were as much as $10 billion, the increase in the deficit would amount to only a little over one one-thousandth of the projected federal budget for that year and about 25 one-thousandths of one percent of GDP. Moreover, if — as is likely — future Congresses actually appropriate less than the full amount the Senate immigration bill authorizes (or reduce other discretionary appropriations to offset part of the effect of the increase in border

KEY FINDINGS

- **CBO has found the Senate immigration bill would have little effect on the federal budget over both the short and long run.**
- **CBO's ten-year cost estimate finds the bill would bring in more than twice as much in new tax revenues from immigrants as it would cause to be paid out in new entitlement expenditures; thus, the provisions related to changes in policies regarding legal status would reduce the deficit.**
- **If the new discretionary spending the bill authorizes, primarily for border enforcement and employment restrictions, is funded in full, and if none of these expenditures are offset by reductions in other discretionary spending, then the bill as a whole will increase the deficit by $17.8 billion over ten years, or one one-hundredth of one percent (0.01 percent) of GDP.**
- **This small net cost would stem from the enforcement provisions; if the new enforcement funds were provided and the rest of the bill dropped, costs would be higher, not lower.**
- **The long-run fiscal effects also are small, CBO found, essentially amounting to a wash ("several billion dollars" in 2027).**
- **The CBO report and an earlier analysis by the Social Security actuaries also indicate the bill would modestly strengthen Social Security's finances.**

[1] Congressional Budget Office, "Cost Estimate of the Senate Amendment 1150 to S. 1348, the Comprehensive Immigration Reform Act of 2007," June 4, 2007, p. 2.

enforcement funding), the effect of the immigration bill on future deficits is likely to be close to zero.

What the CBO Estimate Shows

CBO estimates that the immigration legislation would increase federal expenditures for entitlement programs such as Medicaid, Food Stamps, Medicare, and Social Security, as a result of changes the bill makes in immigration policies, by $22.7 billion over the next 10 years. But CBO and the Joint Committee on Taxation also estimate that the bill would increase revenues by $48.3 billion from immigrants over the same period. (The estimated increase in revenues results from a number of factors, including a requirement that immigrants gaining legal status must pay back taxes, an increase in aggregate wages, incentives for more accurate reporting of income, and assessments of fines and penalties.) The combined effect of the increases in entitlement spending and revenues is to *reduce* the deficit over the next 10 years by $25.6 billion. In other words, the bill's provisions dealing with various categories of immigrants who would be afforded some sort of legal status would reduce deficits rather than increase them.

CBO also estimates that implementing the bill would increase discretionary spending by $43.4 billion over 10 years, if future Congresses choose to appropriate the full amount of discretionary funding CBO estimates would be needed to carry out the bill *and* do not reduce funding for other discretionary programs in order to hold down the effect on total discretionary spending. Including the total cost of the assumed discretionary funding — *virtually all of which would go for increased efforts to exclude unauthorized immigrants from the United States* — CBO estimates that the deficit would be increased by a cumulative total of $17.8 billion in 2008 through 2017. This would equal substantially less than one one-thousandth of total projected federal expenditures over that period. (Looked at another way, this increase would be equal to about one one-hundredth of one percent of GDP over the next 10 years, or 0.01 percent of GDP.)

Perhaps most importantly — given assertions by opponents of the legislation that the cost of the bill would rise dramatically in the years beyond the 10-year window covered in detail by the CBO estimate — CBO concludes that the "net impact on the unified budget would remain relatively small in the context of the overall budget" in years *after* 2017. CBO estimates, for instance, that by 2027 "implementing the legislation (including the necessary appropriations) would increase the unified budget deficit (or reduce any surplus) by several billion dollars a year." As noted, even if "several" were as much as $10 billion, the increase in the deficit in 2027 would be equal to a little over one one-thousandth of the $7.3 trillion in federal expenditures projected for that year, and to about 25 one-thousandths of one percent of GDP (0.025 percent of GDP).[2]

It is important to note that nearly two-thirds of the increase in spending that CBO estimates for the Senate immigration bill would be discretionary spending ($44.3 billion of the $66.1 billion increase over 10 years). Since actual discretionary appropriations are provided one year at a time, the amount of this estimated increase in discretionary spending that will actually occur depends *not* on

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[2] The $7.3 trillion in projected expenditures in 2027 is a CBPP estimate produced in connection with long-term budget projections developed in support of series of Center papers on the long-term budget problems facing the U.S. The projections rely heavily on 10-year baseline and long-term projections produced by CBO. For a discussion of the projections, see Richard Kogan and Matt Fiedler, "The Technical Methodology Underlying CBPP's Long-term Budget Projections," Center on Budget and Policy Priorities, January 29, 2007.

Effect of Senate Immigration Bill on Social Security

Some have suggested that the immigration legislation being considered by the Senate would harm Social Security, with newly legalized immigrant workers and new citizens draining the Social Security trust funds at the expense of current citizens. In fact, enactment of the Senate immigration legislation is likely to modestly *improve* the outlook for the Social Security trust funds and the ability of Social Security to provide promised benefits to current citizens.

CBO's cost estimate of the Senate immigration bill shows that enactment of that legislation would increase Social Security revenues over the next 10 years by $57.1 billion while increasing Social Security expenditures by only $1.2 billion.

In the longer run it is clear that the new expenditures will increase as newly legal workers and new citizens become eligible for benefits they earn (and for which they have paid taxes), but it is highly likely that the overall outlook for Social Security over the next 75 years would be modestly improved by enactment of this legislation. While CBO's cost estimate of the current Senate immigration legislation does not include an estimate of the effect of the legislation on the 75-year solvency of the Social Security system, the Social Security actuaries estimated last year that the immigration legislation the Senate considered in 2006 would improve the long-term actuarial balance of Social Security.[1] The Social Security actuaries estimated that legislation would reduce the 75-year Social Security shortfall by about one-eighth, a significant amount.[2] The legislation being considered by the Senate this year is likely to have less effect on the solvency of the Social Security trust fund because it would not increase immigration as much, but it is almost certain that the effect would be positive.

[1] Testimony of CBO's Paul R. Cullinan, "The Budgetary Impact of Current and Proposed Border Security and Immigration Policies," presented to the Senate Committee on the Budget on August 30, 2006, p. 7.
[2] Letter to Senator Charles E. Grassley from Steve Goss, Chief Actuary, Social Security Administration, July 24, 2006.

enactment of the Senate immigration bill, but on decisions that future Congresses make about how much to appropriate each year for the enforcement purposes set forth in the Senate bill and whether to reduce funding for other discretionary programs in order to offset the effect of the increase in immigration enforcement funding on overall discretionary funding. Given that Congress usually appropriates less than the full amount authorized for most discretionary programs, and that future Congresses will certainly face pressure to hold down overall discretionary spending (especially as the baby boom generation retires), it seems likely that the actual increase in discretionary spending in coming years and decades will be less than the amount assumed in the CBO cost estimate. (The cost estimate assumes that the full amount will be appropriated and that there will be no offsetting reductions in funding for other programs.) If the discretionary funding actually provided is less than CBO estimates, it is likely that the effect of the Senate immigration bill on future deficits will be close to zero.

Deficits Likely Would be Larger in the *Absence* of the Bill

It is also worth noting that, as indicated above, virtually all of the estimated increase in discretionary spending would be for increased efforts to reduce the number of people working illegally in the United States, through increased border security, more vigorous efforts to detain and deport unauthorized residents, and implementation of a system requiring employers to verify that employees are legally allowed to work in the United States. These enforcement efforts are *not* tied to the parts of the bill that opponents have most vigorously criticized — i.e., the provisions establishing a new guest worker program and a path to legal status, and eventually citizenship, for some undocumented workers currently in the country. Indeed, many of the most vocal opponents of the bill strongly support enforcement measures like the ones included in the bill and are determined to provide additional funding for enforcement efforts in future appropriations bills *whether or not* the other aspects of the Senate immigration bill are enacted. This means that a substantial part of the increase in discretionary spending attributed to the Senate immigration bill is likely to occur regardless of whether the Senate bill is enacted.

In the event that only the additional enforcement funding is provided, the negative impact on the budget *would almost certainly be greater than if the entire Senate legislation were enacted.* The increase in discretionary spending for enforcement would occur, but the increase in revenues resulting from the other provisions of the Senate bill — an increase that more than covers the increase in entitlement expenditures resulting from those provisions and therefore partially offsets the increase in discretionary spending for enforcement — would *not* occur. Thus, deficits would be higher than if the Senate immigration bill were enacted.

As a result, the CBO analysis shows that those who support increased enforcement measures but oppose the overall Senate immigration legislation cannot legitimately justify that position on the basis of the effect the Senate bill will have on the federal budget.