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Budget Model

Macroeconomic effects of Biden's immigration policy

Summary: Using PWBM's dynamic model, we show the macroeconomic effects of Presidential candidate Biden's immigration proposal. By 2050, GDP increases by 1.7 percent in 2050 relative to current law while GDP per capita stays the same.

Introduction

In recent years, immigration has fallen to historically low levels with new immigrants representing 0.54 percent of the U.S. population in 2017 and 0.37 percent in 2018, compared to an average of 0.61 percent for the two decades prior. Without any policy change, we project that immigration rates continue at their current lower level and slowly return to historical levels by 2050. Following our previous comprehensive analysis of presidential candidate Joe Biden's platform, this analysis presents more detailed economic estimates of the Biden immigration policy proposal.

Biden's Plan

Biden's plan has many elements, some of which do not directly affect fiscal analysis or do not have enough details provided by the campaign. We focus this analysis on two major channels in Biden's plan with potentially large macroeconomic consequences: a transition to legal status of unauthorized migrants and restoring immigration rates to their pre-Trump era averages.

Method

We model Biden's plan for a transition to legal status based on the 2013 Border Security, Economic Opportunity, and Immigration Modernization Act, which is referenced in the campaign's immigration plan. This bill outlined a 10-year transition to lawful permanent resident status for unauthorized immigrants, including immediate work permits to transition them to full legal status. Drawing on a CBO analysis of the 2013 bill, S. 744, we estimate that two-thirds of unauthorized immigrants would gain legal status. We model Biden's plan to restore immigration rates as immediate, thereby returning immigration back to historical rates.

Demographic Projections

The main demographic effect of granting legal status to most unauthorized immigrants is a decrease in emigration rates, as authorized immigrants emigrate back to their country less often than unauthorized immigrants. We project that the Biden immigration plan would increase the U.S. population by 1.64 percent in 2050, thereby increasing total labor supply. U.S. fertility increases since immigrants have more children than native-born families, and this increase, in turn, produces downstream demographic and economic effects such as a slightly younger population. This effect peaks in 2040, when the percentage of the population that is of prime working age (20 to 64 years) increases from 70.00 percent under current law to 70.26 percent under the Biden immigration plan.

Macroeconomic Projections

In Table 1, we present estimated changes for various economic aggregates relative to a current law baseline. Because of the sharp increase in labor supply during the initial years, GDP increases by 1 percent in 2030. New immigrants in the model are assumed to bring very little savings into the U.S. economy, which translates to a smaller increase in the capital stock relative to labor. Because of this lower initial savings, immigrants work more in order to save wealth for later consumption.

Since labor is more abundant than capital under the Biden policy scenario, wages are initially lower, decreasing on average by 0.3 percent in 2030. Capital returns increase slightly, which provides incentive for domestic savers and foreign investors to provide capital at a higher rate than in the baseline. This effect along with the increased work hours of immigrants brings capital closer to balance with labor by 2050, with increases of 1.7 percent and 1.8 percent, respectively. As capital accumulates, wages increase and approach baseline scenario wages by 2050.

Higher GDP combined with a larger capital stock leads to higher tax revenues. Spending does not increase proportionally with increased immigration because immigrants are of working age, do not collect Social Security old age benefits, and do not access transfer programs disproportionately. By 2050, smaller budget deficits resulting from increased revenues decrease government debt by 1.6 percent relative to the current law baseline.

Table 1. Economic Effects of the Biden Immigration Plan

Percent change relative to baseline

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Year	GDP	Capital stock	Hours worked	Average hourly wage	Debt Held by the Public
2030	1.0%	0.6%	1.3%	-0.3%	0.0%
2040	1.5%	1.4%	1.7%	-0.2%	-1.0%
2050	1.7%	1.7%	1.8%	-0.1%	-1.6%

Since population size differs between the baseline and policy scenarios, it is useful to see changes on a per capita basis as shown in Table 2. As discussed above, new immigrants have little savings and hours worked per capita increase even in the face of a decrease in the average hourly wage. The 0.4 percent drop in capital stock per capita in 2030 results from slower capital adjustment, as capital accumulation does not immediately follow the growth in hours worked. Since the economy is partially open, foreign investment flows cannot immediately address a capital shortfall. By 2050, the shortfall in capital disappears, with capital per capita increasing by 0.1 percent and hours worked per capita increasing by 0.1 percent. In addition to the decline in total debt discussed above, a larger population directly lowers the per capita debt because the amount of debt is divided by a larger total population.

Table 2. Per Capita Economic Effects of the Biden Immigration Plan

Percent change relative to baseline on per capita basis

DOWNLOAD DATA

Year	GDP	Capital stock	Hours worked	Debt Held by the Public
2030	-0.1%	-0.4%	0.3%	-1.0%
2040	0.1%	0.0%	0.3%	-2.4%
2050	0.0%	0.1%	0.1%	-3.2%

This analysis was conducted by Daniela Viana Costa under the direction of Efraim Berkovich. Austin Herrick contributed to the demographic modeling. Prepared for the website by Mariko Paulson.