NISKANEN CENTER

Policy Analysis

The Economic and Fiscal Impact of the Recognizing America's Children (RAC) Act

Karl Smith & Jeremy L. Neufeld[i]

August 2017

Executive Summary

The Recognizing America's Children (RAC) Act,[1] introduced by Rep. Carlos Curbelo (R-FL26), grants a path to conditional permanent residence to young immigrants who came to the United States under the age of 16, provided they choose to serve in the military, enroll in higher education, or work in the United States. After five years as a conditional permanent resident, RAC participants are eligible for legal permanent residence status provided they maintain a clean criminal record, do not become dependent on public assistance, and pay owed back taxes to the U.S. government, among all other requirements necessary for conditional permanent resident status. After an additional five years as a permanent resident, RAC participants are eligible to naturalize.

The analysis that follows includes a state-by-state breakdown of RAC-eligible participants, their estimated economic and fiscal contributions under the RAC Act, as well as the economic consequences of passing the RAC Act into law.

Overall, our findings suggest that 2.5 million immigrants will be eligible to apply for legal status under the RAC Act and, if passed:

- RAC-eligible individuals will contribute $721 billion in gross domestic product (GDP) over a decade;
- The net present value of RAC-eligible individuals' long-term fiscal contribution to federal, state, and local governments is $200 billion;
- Would increase GDP by more than $79 billion over ten years and increase net federal government revenue by $21 billion over the same period; and
- Would create 115,000 new jobs.

[i] Karl Smith is the Director of Economic Research at the Niskanen Center. Jeremy L. Neufeld is the Niskanen Center's immigration policy fellow.

Immigration legislation is complex, and requires consideration of several issues. Among the most relevant should be an analysis of the contributions of potential participants and the economic and fiscal impact of legalizing this population of individuals. We hope this analysis will inform that discussion.

Introduction

The RAC Act was introduced in March against the backdrop of ambiguous policy toward Dreamers by the Trump administration. Then, in late July, then-Department of Homeland Security (DHS) Secretary John Kelly announced to the Congressional Hispanic Caucus that the government may decline to defend the Deferred Action for Childhood Arrivals (DACA) program—which deferred removal of over 750,000 undocumented young adults, or Dreamers—against a looming legal challenge threatened by several states.[2]

Attorneys general from ten states threatened to file suit (in a court unfriendly to DACA) if the administration does not agree to rescind the program by September 5, 2017. The last time many of these attorneys banded together, it resulted in the United States Supreme Court striking down DACA's partner program, Deferred Action for Parents of Americans and Lawful Permanent Residents (DAPA), which protected undocumented parents.

DACA was created through an executive order by former President Obama, as was DAPA. The lower courts enjoined DAPA, ruling that Obama's actions constituted executive overreach, and a divided Supreme Court upheld the injunction. Based on the results of the DAPA suit, it is highly unlikely that DACA would survive in court, especially if the government does not defend it.

The actual scope of any injunction—an order preventing further implementation—against DACA will be up to the courts, but it is likely a court will prevent the government from renewing any DACA permits or approving any new applications. Those with current DACA status will be safe until their permits expire—it would be no more than two years before all DACA recipients will lose their status. About 30,000 would lose their status every month.[3]

Urgency surrounding legalizing this population continues to grow. President Trump officially repealed DAPA in July, but refrained from acting on DACA. Instead, members of the Trump administration put the onus squarely on Congress to find a solution for the Dreamer population.

Although significant research exists specific to the Dreamer population and eligibility under the Deferred Action for Childhood Arrivals (DACA) program, little information exists about potential eligibility and economic consequences of the RAC Act. As lawmakers consider the economic and social benefits of the RAC Act in the coming weeks, policymakers must understand how many people will be eligible, where they currently live in the U.S., and how much they will contribute to the economy and federal, state, and local budgets if the RAC Act were passed.

Eligibility

Republican Representative Carlos Curbelo (FL-26) introduced the RAC Act in March 2017 with 18 cosponsors as of August 1, 2017. The RAC Act offers conditional permanent residence to immigrants who:

- Have been in the U.S. continuously since January 1, 2012;
- Initially arrived in the U.S. younger than the age of 16;
- Are undocumented, or whose parents hold E-2 visas;[ii]
- Are a person of good moral character;
- Pass strict criminal background checks and a medical exam;
- Pay back-taxes; and
- If 18, pursue one of three pathways:
    - Serve in the US armed forces;
    - Pursue a postsecondary degree in higher education; or
    - Maintain gainful employment.

The RAC Act does not exclude undocumented immigrants over the age of 18 who did not participate in DACA, provided they meet other requirements, which include having a high school diploma/equivalence or admittance to an institution of higher education.

We estimate that the total number of immigrants who meet age and residency eligibility requirements under the RAC Act is 2.5 million.[iii] Below, Table 1 breaks down overall estimated eligibility for the RAC Act by state.

Table 1: RAC Act Eligibility Estimates by State

State	RAC-eligible Immigrants
Total US[iv]	2,496,000
Alabama	14,700
Alaska	2,700
Arizona	89,400
Arkansas	12,000
California	651,200
Colorado	42,800
Connecticut	21,000
Delaware	4,400
Washington, D.C.	5,400
Florida	158,500

[ii] The inclusion of the children of E-2 visa holders is designed to allow an option for young people who grew up in the United States legally with E-2 dependent visas but who become unlawfully present when they turn 21, regardless of their parents' legal status.
[iii] *See* Appendix for the methodology used to estimate eligibility and economic contributions of this population.
[iv] Due to rounding, total may not be equal to the sum of a column.

State	RAC-eligible Immigrants
Georgia	68,600
Hawaii	3,500
Idaho	9,000
Illinois	119,500
Indiana	25,700
Iowa	11,000
Kansas	16,100
Kentucky	12,400
Louisiana	11,000
Maine	3,300
Maryland	36,800
Massachusetts	44,400
Michigan	42,300
Minnesota	24,200
Mississippi	6,900
Missouri	18,700
Montana	2,200
Nebraska	9,500
Nevada	35,300
New Jersey	71,400
New Hampshire	4,300
New Mexico	17,400
New York	171,100
North Carolina	54,600
North Dakota	2,200
Ohio	31,500
Oklahoma	18,200
Oregon	29,500
Pennsylvania	36,200
Rhode Island	6,400
South Carolina	18,100
South Dakota	2,600
Tennessee	24,400
Texas	364,000
Utah	18,800
Vermont	1,700
Virginia	43,100
Washington	52,300
West Virginia	2,300
Wisconsin	20,800
Wyoming	2,200

The number eligible for the RAC Act is somewhat lower than the approximately 3.3 million[4] who would be eligible for the DREAM Act, introduced in the Senate, which includes a more lenient age requirement that includes those who arrived in the United States between who are 16 or 17. The total number of undocumented immigrants is over 11 million.[5]

We anticipate that most, but not all, of the 2.5 million RAC-eligible immigrants will be eligible for conditional residence if they apply for status. However, the number of individuals who may become eligible for legal permanent resident status by successfully meeting the education, service, or work requirements is highly uncertain at this time.

Overall Economic and Fiscal Impacts of the RAC Act

The RAC Act will increase the size of the workforce and the skill-level of many of those joining in the workforce, thereby growing the broader economy. Legal status and work authorization will encourage undocumented workers to seek employment without fear of deportation, and will motivate others in the undocumented population to enroll in school and the military as a means of securing legal status.

For these reasons, we confidently estimate that the RAC Act will result in an increase in total investment of human capital among undocumented immigrants, increase their participation in the labor force, and will make it easier for them to find gainful employment.

Quantifying those effects, however, is highly dependent on what happens to this population if the RAC Act is not passed. The likelihood of deportation of the Dreamer population, and potentially those with DACA status, impacts the estimated effects of passing of the RAC Act.

To account for the range of baseline scenarios in which the RAC Act fails, we derive two sets of estimates. The first estimate looks only at the contributions RAC-eligible immigrants would make if the RAC Act were passed. It is the equivalent to the net benefits of the RAC Act compared to a baseline where all eligible immigrants are deported. The second estimate looks at the likely *effects* of passing the RAC Act—that is, the difference between passage and the most likely scenario without passage.

The Economic and Fiscal Contributions of RAC-Eligible Immigrants under the RAC Act

We estimate that if the RAC Act became law, the RAC-eligible population over ten years will contribute $721 billion to the gross domestic product (GDP). We further estimate that the net present value (NPV) of their long term fiscal contribution to federal, state, and local governments will be $200 billion.[v] This sum includes future net revenue that governments can expect to receive from eligible immigrants, but takes into consideration the lower value in the present of future revenue.

[v] Estimated economic and fiscal contributions of RAC-eligible individuals if RAC were to pass. A fraction of the total contribution would still be generated unless the entire RAC-eligible population were deported.

Table 2: Ten-Year Contributions of RAC-Eligible Immigrants by State of Residence

State	GDP Contribution, 10 years	NPV Fiscal Contribution
Total US[vi]	$721,340,000,000	$199,679,000,000
Alabama	$4,253,000,000	$1,177,000,000
Alaska	$793,000,000	$220,000,000
Arizona	$25,850,000,000	$7,156,000,000
Arkansas	$3,465,000,000	$959,000,000
California	$188,190,000,000	$52,094,000,000
Colorado	$12,379,000,000	$3,427,000,000
Connecticut	$6,066,000,000	$1,679,000,000
Delaware	$1,279,000,000	$354,000,000
Washington D.C.	$1,555,000,000	$430,000,000
Florida	$45,804,000,000	$12,679,000,000
Georgia	$19,813,000,000	$5,484,000,000
Hawaii	$1,003,000,000	$278,000,000
Idaho	$2,615,000,000	$724,000,000
Illinois	$34,537,000,000	$9,560,000,000
Indiana	$7,430,000,000	$2,057,000,000
Iowa	$3,178,000,000	$880,000,000
Kansas	$4,640,000,000	$1,284,000,000
Kentucky	$3,590,000,000	$994,000,000
Louisiana	$3,187,000,000	$882,000,000
Maine	$947,000,000	$262,000,000
Maryland	$10,645,000,000	$2,947,000,000
Massachusetts	$12,844,000,000	$3,555,000,000
Michigan	$12,222,000,000	$3,383,000,000
Minnesota	$6,997,000,000	$1,937,000,000
Mississippi	$2,007,000,000	$556,000,000
Missouri	$5,399,000,000	$1,495,000,000
Montana	$623,000,000	$172,000,000
Nebraska	$2,747,000,000	$761,000,000
Nevada	$10,211,000,000	$2,826,000,000
New Jersey	$20,635,000,000	$5,712,000,000
New Hampshire	$1,253,000,000	$347,000,000
New Mexico	$5,033,000,000	$1,393,000,000
New York	$49,454,000,000	$13,690,000,000
North Carolina	$15,787,000,000	$4,370,000,000
North Dakota	$639,000,000	$177,000,000
Ohio	$9,114,000,000	$2,523,000,000
Oklahoma	$5,250,000,000	$1,453,000,000
Oregon	$8,535,000,000	$2,363,000,000

[vi] Due to rounding, total may not be equal to the sum of a column.

State	GDP Contribution, 10 years	NPV Fiscal Contribution
Pennsylvania	$10,471,000,000	$2,898,000,000
Rhode Island	$1,859,000,000	$515,000,000
South Carolina	$5,237,000,000	$1,450,000,000
South Dakota	$741,000,000	$205,000,000
Tennessee	$7,039,000,000	$1,948,000,000
Texas	$105,192,000,000	$29,119,000,000
Utah	$5,445,000,000	$1,507,000,000
Vermont	$481,000,000	$133,000,000
Virginia	$12,466,000,000	$3,451,000,000
Washington	$15,116,000,000	$4,184,000,000
West Virginia	$655,000,000	$181,000,000
Wisconsin	$6,025,000,000	$1,668,000,000
Wyoming	$646,000,000	$179,000,000

These sizeable contributions represent the cost to the economy and government finances if RAC-eligible immigrants were removed from the country, by deportation or emigration.

For comparison, if the RAC Act were passed, the average yearly contributions of RAC-eligible immigrants would be larger than the economy of Slovenia.

The Likely Effect of the RAC Act

If the RAC Act does not pass, the likeliest scenario is that DACA is cancelled, either because it is rescinded, not defended, or struck down by the courts. However, even with DACA cancelled, DACA recipients will not all be immediately deported. If they were deported along with the rest of the RAC-eligible population, the cost to the economy would be equal to their contributions estimated above. However, in the likeliest scenario in which the RAC Act fails, most of the RAC-eligible population would remain, but would be less productive because they would lack valid work authorization and would have less education. It is against this baseline that we derive the likely effect of passing the RAC Act. Because we would expect some portion of this population to be deported if the RAC Act does not pass, our estimate for the likely effect of passing the RAC Act is conservative.

We conservatively estimate that the likely impact of passing the RAC Act is the creation of 115,000 jobs, a $79 billion increase in GDP over a decade, and $21 billion in long-term net revenue to the federal government.

Table 3: Likely Effect of the RAC Act by State of Residence

State	New Jobs	GDP Gain, 10 years	Net Fiscal Gain, 10 years
Total US[vii]	114,680	$78,991,000,000	$21,328,000,000
Alabama	680	$466,000,000	$126,000,000
Alaska	130	$87,000,000	$23,000,000
Arizona	4,110	$2,831,000,000	$764,000,000
Arkansas	550	$379,000,000	$102,000,000
California	29,920	$20,608,000,000	$5,564,000,000
Colorado	1,970	$1,356,000,000	$366,000,000
Connecticut	960	$664,000,000	$179,000,000
Delaware	200	$140,000,000	$38,000,000
Washington D.C.	250	$170,000,000	$46,000,000
Florida	7,280	$5,016,000,000	$1,354,000,000
Georgia	3,150	$2,170,000,000	$586,000,000
Hawaii	160	$110,000,000	$30,000,000
Idaho	420	$286,000,000	$77,000,000
Illinois	5,490	$3,782,000,000	$1,021,000,000
Indiana	1,180	$814,000,000	$220,000,000
Iowa	510	$348,000,000	$94,000,000
Kansas	740	$508,000,000	$137,000,000
Kentucky	570	$393,000,000	$106,000,000
Louisiana	510	$349,000,000	$94,000,000
Maine	150	$104,000,000	$28,000,000
Maryland	1,690	$1,166,000,000	$315,000,000
Massachusetts	2,040	$1,407,000,000	$380,000,000
Michigan	1,940	$1,338,000,000	$361,000,000
Minnesota	1,110	$766,000,000	$207,000,000
Mississippi	320	$220,000,000	$59,000,000
Missouri	860	$591,000,000	$160,000,000
Montana	100	$68,000,000	$18,000,000
Nebraska	440	$301,000,000	$81,000,000
Nevada	1,620	$1,118,000,000	$302,000,000
New Jersey	3,280	$2,260,000,000	$610,000,000
New Hampshire	200	$137,000,000	$37,000,000
New Mexico	800	$551,000,000	$149,000,000
New York	7,860	$5,416,000,000	$1,462,000,000
North Carolina	2,510	$1,729,000,000	$467,000,000
North Dakota	100	$70,000,000	$19,000,000
Ohio	1,450	$998,000,000	$269,000,000
Oklahoma	830	$575,000,000	$155,000,000
Oregon	1,360	$935,000,000	$252,000,000

[vii] Due to rounding, total may not be equal to the sum of a column.

Pennsylvania	1,660	$1,147,000,000	$310,000,000
Rhode Island	300	$204,000,000	$55,000,000
South Carolina	830	$574,000,000	$155,000,000
South Dakota	120	$81,000,000	$22,000,000
Tennessee	1,120	$771,000,000	$208,000,000
Texas	16,720	$11,519,000,000	$3,110,000,000
Utah	870	$596,000,000	$161,000,000
Vermont	80	$53,000,000	$14,000,000
Virginia	1,980	$1,365,000,000	$369,000,000
Washington	2,400	$1,655,000,000	$447,000,000
West Virginia	100	$72,000,000	$19,000,000
Wisconsin	960	$660,000,000	$178,000,000
Wyoming	100	$71,000,000	$19,000,000

Against a different, less-likely baseline, the estimates for the effect of the RAC Act would be different. For instance, if we assumed that the baseline scenario in which the RAC Act fails is that DACA is preserved, the estimated impact would be about 65% of our reported likely impact. We believe the baseline that DACA would come to an end is likely.[viii] However, our baseline assumption that the entire population would remain in the United States and none would get deported is highly unlikely—although easier to model. Therefore, the *expected* effect of passing the RAC falls between our conservative estimate of the likely effect and our estimate for the contributions of RAC-eligible immigrants under the RAC Act.

To put the fiscal effect in perspective, passing the RAC Act would be the equivalent of a refund paid out to the federal government over 10 years for fully funding US Customs and Border Protection (CBP) and US Immigration and Customs Enforcement (ICE) in 2017.[6]

Conclusion

Our analysis shows that every state, and the United States has much to gain by passing the RAC Act. The country could gain 115,000 jobs, a $79 billion increase in GDP over a decade, and $21 billion in long-term net revenue to the federal government if the RAC Act is passed. The 2.5 million eligible participants would be contributing sizably—$721 billion—to the economy and paying $200 billion more in taxes than they receive in benefits over the long term.

Rep. Dave Reichert (R-WA8), a co-sponsor of the RAC Act, has said that Dreamers "have contributed to our communities in immeasurable ways." He is doubtlessly correct. But one particular part of their contribution—their economic and fiscal contribution—is in fact measurable, and it is quite significant.

[viii] See the introduction.

Appendix: Methodological Notes

Eligible Population Estimates

The estimate of the state-by-state RAC-eligible population is derived by collecting data from the American Community Survey (ACS) on the age, country of origin, and legal status on the immigrant populations in 117 counties for which the Migration Policy Institute (MPI) produced estimates of the DACA eligible populations.[7] A demographic model of the DACA eligible population was then specified and estimated. Then, that model was used to predict the DACA eligible population for every state, which was then scaled to estimate the RAC eligible population for that state, using the ratio of MPI's estimate for the potential RAC Act beneficiaries to their estimate of the total eligible for DACA.[8]

Ten-Year Contributions of RAC-Eligible

Ike Brannon of the Cato Institute estimated the GDP contributions of DACA recipients[9] by recalibrating a model developed by Thomas Church at the Hoover Institution to calculate the GDP impact of H1-B Visa population. Brannon recalibrated the results of Church's model to take into account the differing size, educational attainment and income prospects of the DACA eligible population relative to the H1-B Visa population.

The contribution estimates in this paper used Brannon's model to calculate a GDP impact multiplier for the DACA eligible population. That multiplier was then applied to the state-by-state estimates of the RAC eligible population to estimate the ten-year economic contributions of the RAC-eligible population.

To calculate the NPV of their net fiscal contribution to federal, state, and local governments, we used the National Research Council's estimate of the average long-term net fiscal contribution per immigrant.[10]

Low End Economic Impact and Job Creation

Nolan Pope at the University of Chicago used data from the American Community Survey to produce a difference-in-differences estimate of the effect of DACA on immigrant labor supply.[11] The data set available to Pope gave him detailed information of the employment histories of nearly 400K immigrants but did not differentiate between legal and non-legal status. As a result, his estimates are significantly biased downward, since DACA only directly affects or in econometric terms is "intended to treat" immigrants with non-legal status.

This paper multiplied Pope's estimate in the increase in average hours worked by average labor productivity and number of weeks per year to produce economic labor supply impact. To this labor impact was added a corresponding capital deepening, assuming a standard ⅓ capital share, to create a total economic impact. This was then multiplied by our estimate of the state-by-state RAC eligible population to produce the lower bound on the likely economic impact. To derive the likely net fiscal gain to the federal government over ten years, a fiscal impact multiplier of .27 was derived from Brannon's GDP impact estimates and applied to the likely impact estimates.

To estimate job creation, the increase in labor supply estimated by the Pope model was divided by average weekly hours.

References

[1] Recognizing America's Children Act, H.R. 1468, 115th Congress, 1st Session, 2017. Available at: https://www.congress.gov/bill/115th-congress/house-bill/1468.

[2] Ted Hesson, "Kelly Won't Commit to Defending DACA in Court," *Politico*, July 12, 2017. Available at: http://www.politico.com/story/2017/07/12/john-kelly-daca-legal-challenge-240470

[3] David Bier, "How DACA Will End: A Timeline of Expiration," Washington DC: Cato Institute, December 21, 2016. Available at: https://www.cato.org/blog/how-daca-will-end-timeline-expiration

[4] Jeanne Batalova, Ariel G. Ruiz Soto, and Michelle Mittelstadt, "Protecting the DREAM: The Potential Impact of Different Legislative Scenarios for Unauthorized Youth," Washington DC: Migration Policy Institute, July 2017, p. 6. Available at: http://www.migrationpolicy.org/research/protecting-dream-potential-impact-different-legislative-scenarios-unauthorized-youth.

[5] Jeffrey S. Passel and D'Vera Cohn, "Overall Number of US Unauthorized Immigrants Holds Steady Since 2009," Pew Research Center, September 2016. Available at: http://www.pewhispanic.org/2016/09/20/overall-number-of-u-s-unauthorized-immigrants-holds-steady-since-2009/

[6] "Budget-in-Brief: Fiscal Year 2017," Department of Homeland Security. Available at: https://www.dhs.gov/sites/default/files/publications/FY2017BIB.pdf

[7] United States Census Bureau / American FactFinder. *American Community Survey*. US Census Bureau's American Community Survey Office. For the DACA estimates, see James Bachmeier, Colin Hammar, and Jennifer Van Hook, "National and County Estimates of Populations Eligible for Deferred Action for Childhood Arrivals (DACA) Program, 2016," Washington DC: Migration Policy Institute, 2016. Available at: http://www.migrationpolicy.org/programs/data-hub/deferred-action-childhood-arrivals-daca-profiles

[8] Batalova, Ruiz Soto, and Mittelstadt, "Protecting the DREAM," p. 6. While their division of the total potential beneficiaries into those immediately eligible and those who may become eligible is based on a reading of the law that excludes those under 18, their total eligibility estimate relies on the correct age at arrival and residency requirements.

[9] Ike Brannon and Logan Albright, "The Economic and Fiscal Impact of Repealing DACA," Washington, DC: Cato Institute, January 18, 2017. Available at: https://www.cato.org/blog/economic-fiscal-impact-repealing-daca

[10] James P. Smith and Barry Edmonston, eds., "The Future Fiscal Impacts of Current Immigrants" in *The New Americans: Economic, Demographic, and Fiscal Effects on Immigration*, pp. 297-362, Washington, DC: National Academy Press, 1997, p. 334. Available at: http://isites.harvard.edu/fs/docs/icb.topic803549.files/Week%209-November%203/Smith_Future.pdf

[11] Nolan Pope, "The Effects of DACAmentation: The Impact of Deferred Action for Childhood Arrivals on Unauthorized Immigrants," *Journal of Public Economics*, v. 143, pp. 98-114, 2016. Available at: http://home.uchicago.edu/~npope/daca_paper.pdf