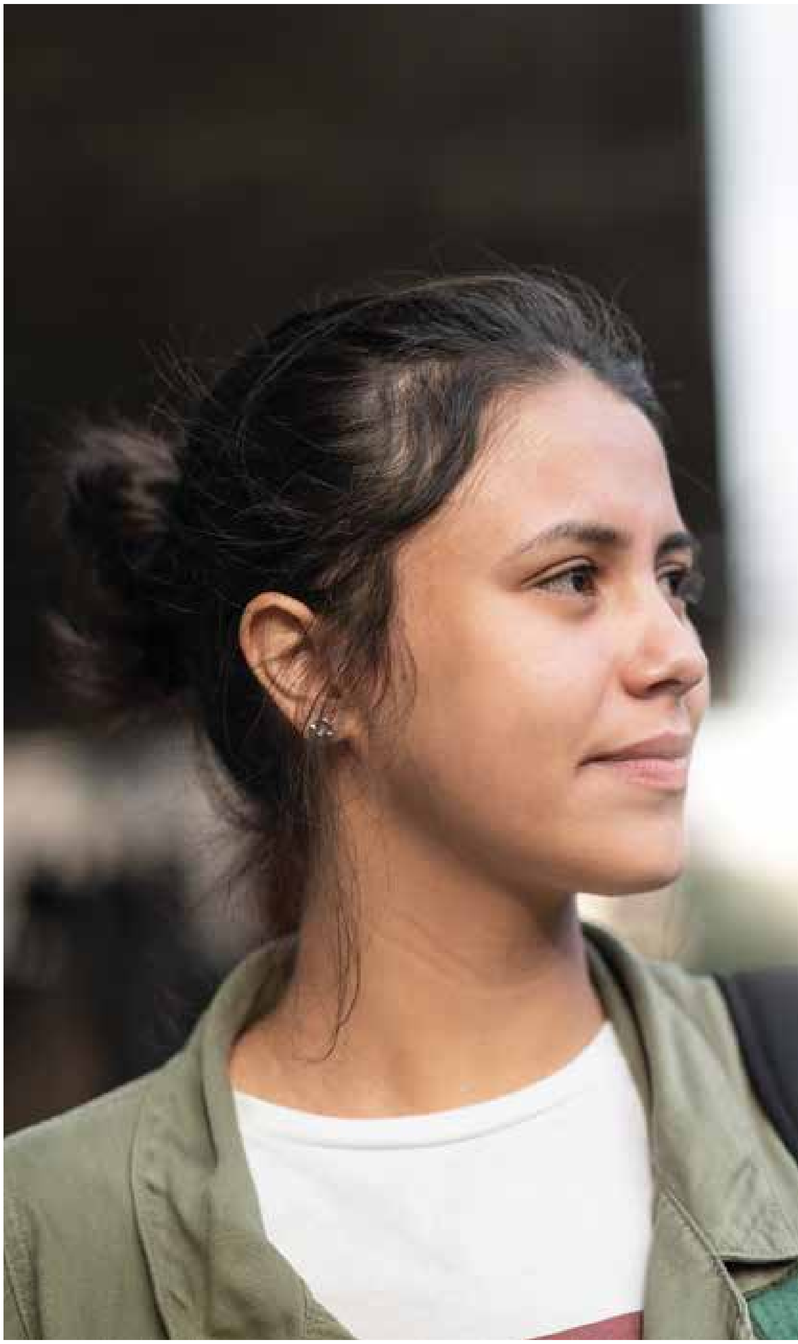
**IMMIGRATION**

# The Costs of Closing DACA Initial Enrollments



## *Blocking additional Dreamers will cost the economy and government coffers.*

**BY IKE BRANNON AND M. KEVIN McGEE**

In July 2020, the Supreme Court rejected the Trump administration's attempts to end Deferred Action for Childhood Arrivals (DACA). The program allows foreign-born U.S. residents who arrived illegally in the United States with their parents before 2012 to obtain legal status to attend school and gain legal employment, providing they have no criminal record and complete a high school education. It was established in 2012 by the Obama administration via executive order.

The Trump administration expressed its displeasure with the Supreme Court's ruling and indicated that it will continue to seek ways to constrain DACA. Less than a month later, Chad F. Wolf, the acting secretary for Homeland Security, announced that the United States would effectively preclude new enrollees from participating in the program. This enrollment freeze affects both the "Dreamers"—beneficiaries of the program—who had turned 15 since September 2017, when the administration first froze new DACA enrollments, as well as those who have yet to reach that initial enrollment age.

The administration's hostility to DACA is rooted in its belief that immigrants take jobs away from U.S. citizens and that limiting legal immigration will invariably boost citizens' employment and wages. As Donald Trump put it in a July 2015 rally in Phoenix: "They're taking our jobs. They're taking our manufacturing jobs. They're taking our money. They're killing us."

We believe that the Trump policy will be counterproductive for U.S. citizens. DACA applies only to people who came to the United States prior to 2012, and the new enrollees affected by Wolf's memorandum are predominantly young people who

**IKE BRANNON is a senior fellow at the Jack Kemp Foundation and a contributing editor to *Regulation*. M. KEVIN MCGEE is professor emeritus at the University of Wisconsin, Oshkosh.**

arrived before the age of 7. This cohort would be unlikely to voluntarily leave the country even if they were denied the ability to attend school or work legally, and the cost of deporting them would be prohibitive. Most of them would remain in the United States and work illegally, should they be denied the ability to obtain legal employment.

Thus, limiting DACA enrollment is unlikely to reduce the number of these foreign-born workers in the economy. Rather, the Trump policy will change their composition in a way that is likely to harm American workers at the margins of the labor market.

Economists commonly divide the U.S. labor force into two broad categories of workers: skilled and unskilled. DACA essentially reduces the population of unskilled workers by moving a cohort of these potential entrants—unskilled foreign-born U.S. residents who came to the U.S. illegally—into the ranks of skilled workers by increasing the returns to their finishing high school and allowing them to legally attend college.

Allowing new enrollees into DACA would not only reduce the number of foreign-born low-skilled workers—by dint of more of them becoming skilled workers—but it would also boost demand for low-skilled workers because skilled workers create jobs for unskilled workers in a variety of ways.

FG TRADE/GETTY IMAGES

In a 2019 paper, we showed that the demise of DACA would reduce the educational attainment and income of those who directly benefit by being able to study or work under its auspices. (See "Would Suspending DACA Withstand a Benefit–Cost Analysis?" Winter 2018–2019.) That, in turn, would affect worker wages and government revenue; DACA's abolishment would cost the federal, state, and local governments hundreds of billions of dollars over the next decade. Here we use that same analysis to estimate the specific effect of closing DACA to new entrants.

Our estimate considers the effect of new DACA enrollments on the educational attainment, future employment, and future earning of two Dreamer populations: those who reached age 15 before Wolf's memorandum, and those yet to attain that initial enrollment age. We project that if new DACA enrollments remain frozen, over the 2021–2030 decade those immigrants would see their combined income decline by about \$6.4 billion. Those losses would expand dramatically over time, to about \$19.7 billion in lost income and productivity in the 2031–2040 decade.

The federal government would lose roughly \$2.8 billion in tax revenue from this reduced income in the next decade. State and local governments would lose about \$705 million in tax revenue over the same period. Those losses would swell to $7.4 billion and $2.0 billion in the following decade.

In other words, closing off DACA would be exceedingly expensive, especially when considering it is completely ineffectual in achieving its ostensible purpose of creating jobs for U.S. citizens.

## EARNING STREAMS WITH AND WITHOUT DACA INITIAL ENROLLMENT

DACA's primary economic effect arises because the program provides young, primarily Hispanic immigrants an incentive to further their education, thereby increasing their productivity, lifetime earnings, and taxes paid. To capture those effects, we estimate the immigrants' likely future educational attainment, earnings, and tax liabilities assuming the DACA enrollments are reopened, and then compare those outcomes with what we would expect if initial DACA enrollments remain frozen.

Our previous research estimated the economic effects of fully eliminating DACA on the entire DACA-eligible population. Here we focus solely on the effects of freezing initial DACA enrollment on its two youngest groups: (1) the immigrants who, by October 2020, would have become eligible for DACA by turning 15 years old if not for the Trump administration's recession of the program on September 5, 2017; and (2) the not-yet-DACA-eligibles who will turn 15 in the next few years. According to the Migration Policy Institute, the former group includes roughly 60,000 young people and the latter about 30,000 teenagers. As a reference, those 90,000 young people are more than the entire high-school-age population of West Virginia.

*Closing off DACA would be exceedingly expensive, especially when considering it is completely ineffectual in achieving its ostensible purpose of creating jobs for U.S. citizens.*

Should DACA initial enrollment be reopened, we project a 5.6% annual dropout rate for these young people for the last three years of high school, based on data from the U.S. Department of Education's National Center for Education Statistics. We also project that 67.1% of the DACA-eligibles with high school degrees will enroll in college. We estimate that 44.8% of these college enrollees will subsequently earn college degrees.

These projections allow us to forecast three streams of labor force entrants, assuming DACA initial enrollment is immediately reopened: one with only high school diplomas, one with some college education, and one with college degrees. (Remember, high school dropouts do not qualify for DACA.)

We then use National Center for Education Statistics (NCES) data to project these immigrants' future earnings. Starting salaries and age-earnings profiles differ by educational attainment. The resulting estimates forecast that if DACA enrollments were immediately reopened, these two groups of young people would in aggregate earn about $2.64 billion in income in 2030. We project that a decade later, their aggregate income will grow to $3.30 billion.

Eliminating new DACA enrollments would reduce the incentives of young people denied access to pursue education. We estimate that high school dropout rates would rise, with the graduation rate for those who start high school after 2019 falling to 76%. College enrollment rates would also decline to only about 40% of those high school graduates because the jobs available to college-educated workers would be effectively foreclosed. But there is no research suggesting any change in probability of completing college among the smaller group who do enroll in college.

Our previous research estimated that eliminating new initial DACA enrollments would reduce employment rates by about 6 percentage points within the cohort. This is not at all surprising because, without employment authorizations, there would be far fewer work opportunities.

Research also finds that the lack of legal status reduces the education wage premium substantially, cutting it nearly in half. Thus, even those who, despite their lack of legal status, continue to graduate from college would earn far less over their lifetimes than if DACA were open to them, primarily because the most productive occupations will be closed to them.

Our resulting projections show that a continued freeze on initial DACA enrollments would have a major effect on the lives of these 90,000 young people. If new initial DACA enrollments remain frozen, these young people would earn about $1.45 billion in aggregate income in the year 2030, about 45% less than if DACA enrollments are reopened. Because illegal status would flatten their earnings profiles, in 2040 their aggregate income would be 52% less than if DACA enrollments were reopened.

Over the 2021–2030 decade, continuing to freeze DACA enrollments would reduce these young people's aggregate nominal earnings from $17.1 billion without the freeze to $10.7 billion with the freeze, a $6.4 billion (37%) loss. Over a 20-year period, the income loss would reach $26.1 billion, 45% less than if DACA enrollments are reopened.

These will be tragedies for the people involved, but they also represent losses for society. The lost income represents lost productivity as prospective scientists, lawyers, and engineers are forced to settle for lives as roofers and fast-food workers. By taking away these young people's access to high productivity employment, we will be reducing our nation's pool of high-skilled workers while expanding our supply of low-skilled workers, supplanting the jobs of U.S.-born low-skilled workers while creating fewer jobs. It is hard to argue that this is an optimal strategy for anyone.

What is more, these income and productivity losses are likely underestimated for three reasons. First, a significant portion of the compensation of high-skilled workers comes in the form of health insurance and other employer-provided benefits, which we do not consider. Second, we ignore the employer's share of Social Security taxes, which is, effectively, employee income that has been taxed away but entitles the employee to future retirement income. Finally, worker productivity invariably exceeds the worker's compensation, which means that compensation only represents a floor on the worker's productive contribution to society.

### HOW THE DACA INITIAL ENROLLMENT PROHIBITION AFFECTS FEDERAL TAX REVENUE

Freezing DACA enrollments will affect federal tax revenues in two ways. First, with less education resulting in lower incomes, these cohorts will have lower tax liabilities. Because these workers will no longer have legal work authorization—and will therefore be driven to "underground" employment—the federal government will be less successful in collecting taxes owed.

We base our estimates of the aggregate income tax liabilities using the tax rates adopted after passage of the Tax Cut and Jobs Act in December 2017. If DACA enrollments are reopened, the two potentially DACA-eligible groups will pay $1.18 billion in federal income taxes over the 2021–2030 decade and $4.38 billion in federal income taxes in the next 20 years. Without DACA enrollment, these young people are projected to owe only $620 million in federal income taxes over the 2021–2030 decade respectively, and $1.92 billion in federal income taxes in the next 20 years.

Further, most of those tax obligations will not be paid. Social Security's Office of the Chief Actuary has estimated that only about 44% of undocumented workers pay Social Security taxes. Applying this same compliance rate to federal income taxes would mean that without DACA enrollment these two groups will pay only $273 million in federal income taxes over the next decade and $845 million in federal income taxes in the next 20 years.

Thus, failing to reopen DACA initial enrollments will cost the federal government $905 million in forgone income tax revenue over the next decade and $3.531 billion over the next 20 years.

Multiplying the 10- and 20-year aggregate nominal earnings amounts by the combined employer-and-employee Social Security and Medicare tax (FICA) rate of 15.3% gives us an upper bound for this population's total FICA tax liabilities. We project that these young people would pay $2.61 billion in FICA taxes over the 2021–2030 decade and $8.75 billion over the next 20 years. In contrast, without DACA enrollment, these young people are projected to owe only $1.65 billion in FICA taxes over the 2021–2030 decade and $4.77 billion in FICA taxes in the next 20 years.

Applying the 44% compliance rate estimated by the chief actuary, we project that without DACA enrollment these immigrants will pay only $719 million in FICA taxes over the 2021–2030 decade and $2.09 billion in FICA taxes in the next 20 years. Thus, failing to reopen DACA initial enrollments will cost the federal government $1.89 billion in forgone FICA tax revenue over the next decade and $6.66 billion over the next 20 years.

Therefore, we project the federal government's overall tax revenue losses (income tax plus FICA) from failing to reopen DACA initial enrollments will amount to $2.8 billion over the next decade and $10.19 billion over the next 20 years.

**Table 1**
Lost DACA Resident Income, Top States ($M)

| State | 2021-30 | 2021-40 |
|---|---|---|
| California | $2,076.2 | $8,475.3 |
| Texas | $968.0 | $3,951.3 |
| Illinois | $331.3 | $1,352.4 |
| New York | $289.1 | $1,180.0 |
| Arizona | $213.1 | $870.2 |
| Florida | $207.6 | $847.4 |
| New Jersey | $201.0 | $820.4 |
| North Carolina | $194.6 | $794.6 |
| Georgia | $182.4 | $744.6 |
| Washington | $178.6 | $729.0 |

**Table 2**
Lost Tax Revenue, Top States ($M)

| State | 2021-30 | 2021-40 |
|---|---|---|
| California | $261.6 | $987.0 |
| Texas | $79.4 | $324.0 |
| Illinois | $37.8 | $147.3 |
| New York | $47.4 | $179.6 |
| New Jersey | $24.4 | $94.2 |
| Florida | $14.2 | $57.8 |
| Arizona | $20.4 | $79.9 |
| Georgia | $18.6 | $71.2 |
| Washington | $14.9 | $60.6 |
| Colorado | $16.5 | $63.4 |

### STATE TAX LOSSES

Continuing to freeze initial DACA enrollments would also reduce state and local government tax revenues by reducing the incomes and the concomitant consumer spending that those governments tax. We estimated those revenue effects by first calculating each state's share of the total DACA population based on U.S. Citizenship and Immigration Services data. We then weighted those shares by states' 2018 median household incomes to estimate the share of total DACA income for each state.

Table 1 shows the losses in DACA residents' income for the 10 most affected states. California residents bear the biggest cost of an enrollment freeze, costing it $2.1 billion over the next decade and $8.5

billion over the next 20 years. Texas, Illinois, and New York residents would also lose over $1 billion in income over the next 20 years.

These income losses would cause state and local tax revenue reductions as well. We use the Survey of State and Local Government Finances' state and local tax revenue data to estimate how the losses above would affect property, sales, and gross receipts tax revenue for each state. We calculate estimated changes in income tax revenue similarly, based on the assumption that only 44% of the affected groups' incomes will be reported if the freeze on initial enrollments continues.

Table 2 reports the aggregate tax revenue loss for the 10 most affected states. Again, California will absorb the biggest effect, losing $262 million over the next decade. The total 10-year effect on all 50 states is about $705 million. The 20-year state and local tax revenue losses from the enrollment freeze will be over 3.5 times larger than the 10-year losses.

## A PYRRHIC VICTORY FOR REDUCING LEGAL IMMIGRATION

There can be a valid rationale for limiting immigration into the United States. Increasing the number of low-skilled immigrants undoubtedly puts downward pressure on the wages of U.S.-born low-skilled workers in the short run. But we believe these wage pressures are relatively minor and that the broad-based benefits of immigration outweigh the costs. A superior approach to this very real problem would be to enact policies that help our low-skilled workers to withstand these forces, either via a more robust Earned Income Tax Credit, enhanced training opportunities, an unemployment insurance system that provides more resources for workers to afford new education or skill enhancements, or even incentives to help low-skilled workers relocate to where there may be an abundance of jobs.

However, reducing the scope of DACA by closing it to new entrants provides no benefits to U.S.-born low-skilled workers. While its closure may seem to reduce the number of foreign-born workers in the U.S. labor market, the reality is that these potential enrollees are already here, and they are not going back to their home country.

Therefore, we are left with a choice: do we want the bulk of these U.S. residents to be skilled workers or unskilled workers? Reopening initial DACA enrollments would encourage these young people to invest in education and training, increasing their employable skills. Until the COVID-19 pandemic took root, regions across the United States were dealing with very real shortages of all kinds of skilled workers, and foreign-born workers were filling a sizable proportion of those jobs. We fully expect those shortages to reappear once the pandemic subsides.

The facile zero-sum narrative of immigration and employment simply does not capture the labor market dynamics inherent in the DACA decision. Our analysis finds that closing DACA to new entrants would reduce their education, productivity, and wages, and cost the U.S. billions of dollars in federal, state, and local tax revenue. And it would do so without creating a single new job for a U.S. citizen. In short, it is a policy that cannot be economically justified in any rational way. *R*

### *READINGS*


- "A New Estimate of the Cost of Repealing DACA," by Ike Brannon, Logan Albright, and M. Kevin McGee. Cato Institute Working Paper no. 49, February 18, 2018.
- "Achieving the DREAM: The Effect of IRCA on Immigrant Youth Postsecondary Educational Access," by Kalena E. Cortes. *American Economic Review*, 103(3): 428–432 (2013).
- "Becoming DACAmented: Assessing the Short-Term Benefits of Deferred Action for Childhood Arrivals (DACA)," by Roberto G. Gonzales, Veronica Terriquez, and Stephen P. Ruszczyk. *American Behavioral Scientist* 58(14): 1–21 (2014).
- "Do Human Capital Decisions Respond to the Returns to Education? Evidence from DACA," by Elira Kuka, Na'ama Shenhav, and Kevin Shih. NBER Working Paper no. 24315, 2018.
- "Do Undocumented Migrants Earn Lower Wages than Legal Immigrants? New Evidence from Mexico," by Douglas S. Massey. *International Migration Review* 21: 236–274 (1987).
- "Does Legal Status Matter for Educational Choices? Evidence from Immigrant Teenagers," by Zachary Liscow and William Gui Woolston. *American Law and Economics Review* 20: 318–381 (2018).
- "Effects of Unauthorized Immigration on the Actuarial Status of the Social Security Trust Funds," by Stephen Goss, Alice Wade, J. Patrick Skirvin, et al. Social Security Administration *Actuarial Note* no. 151, 2013.
- "Estimating the Economic Impacts of DACA," by Ike Brannon and M. Kevin McGee. SSRN working paper, 2019.
- "Foreign Scientists and Engineers and Economic Growth," by Giovanni Peri, Kevin Shih, and Chad Sparber. *Cato Papers on Public Policy* 3: 107–184 (2013).
- "Immigration: High-skilled vs. Low-skilled Labor," by Barry Chiswick. IZA: Institute for the Study of Labor, Policy Paper no. 28, 2011.
- "Immigration's Impact on the Texas Economy," by Ike Brannon and Logan Albright. Texas Public Policy Institute, March 2016.
- "In-State Tuition for the Undocumented: Education Effects on Mexican Young Adults," by Neeraj Kaushal. *Journal of Policy Analysis and Management* 27(4): 771–792 (2008).
- "National and State Estimates of Immigrant Populations Eligible for the Deferred Action for Childhood Arrivals (DACA) Program," published by the Migration Policy Institute, 2018.
- "Schooling and Labor Market Effects of Temporary Authorization: Evidence from DACA," by Catalina Amuedo-Dorantes and Francisca Antman. *Journal of Population Economics* 30: 339–373 (2017).
- "The Earnings of Undocumented Immigrants," by George J. Borjas. NBER Working Paper no. 23236, 2017.
- "The Economic and Fiscal Impact of Repealing DACA," by Ike Brannon and Logan Albright. Cato Institute working paper, January 2017.
- "The Education and Work Profiles of the DACA Population," by Randy Capps, Michael Fix, and Jie Zong. Migration Policy Institute, 2017.
- "The Effects of DACAmentation: The Impact of Deferred Action for Childhood Arrivals on Unauthorized Immigrants," by Nolan G. Pope. *Journal of Public Economics* 143: 98–114 (2016).
- "The Effects of Deferred Action for Childhood Arrivals on the Educational Outcomes of Undocumented Students," by Amy Hsin and Francesca Ortega. *Demography* 55: 1487–1506 (2018).
- "Undocumented Workers in the Labor Market: An Analysis of the Earnings of Legal and Illegal Mexican Immigrants in the United States," by Francisco L. Rivera-Batiz. *Journal of Population Economics* 12(1): 91–116 (1999).