



January 30, 2024

The Honorable Jody Arrington
Chairman
Committee on the Budget
U.S. House of Representatives
Washington, DC 20515

The Honorable Brendan Boyle
Ranking Member
Committee on the Budget
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Arrington, Ranking Member Boyle, and Members of the Committee:

My name is Alex Nowrasteh, and I am the vice president for economic and social policy studies at the Cato Institute. Thank you to the Committee for inviting input on improving congressional scorekeeping. Below, I propose a reform to improve how the Congressional Budget Office (CBO) estimates and reports the budgetary effects of changes in immigration law.

Proposed changes in immigration law would often have the effect of increasing the population of the United States, which increases the number of workers and, thereby, GDP. However, CBO's conventional approach to modeling (often in cooperation with the Joint Committee on Taxation) assumes that immigration legislation will not affect baseline GDP.¹ This is an inappropriate methodology for analyzing the fiscal impact of immigration legislation because its primary goal is to increase GDP by expanding the number of immigrant workers. CBO is aware of this problem and reports that "[F]ollowing the standard convention of assuming that employment would remain unchanged relative to current law would have implied that any employment of the additional immigrants would be offset one-for-one by lower employment elsewhere in the population."²

If that methodological problem weren't bad enough, CBO's conventional approach assumes that immigration legislation would affect the number of people receiving government benefits. As a result, CBO's estimates of the budgetary effect of immigration count the cost of government programs consumed by immigrants but not their impact on tax revenues. Thus, CBO's conventional approach is systematically and erroneously biased against finding a positive fiscal impact of immigration because it only counts the fiscal costs and does not include the fiscal benefits from a larger GDP grown by the presence of more workers in the United States.

CBO has occasionally used other methods in the past to estimate the budgetary impact of immigration legislation. One such method is called the population-change approach.³ This method combines the conventional approach above and all the direct budgetary effects of a change in the number of people in the United States, such as increased income tax and payroll tax revenue. The population-change approach is an improvement, but it is incomplete because it does *not* include all the indirect economic effects, such as changes in tax revenue from more investment that occurs in response to a larger workforce.⁴ CBO has applied the population-change approach four times to different immigration legislation, and it produces better results.⁵

Even more rarely, CBO has used a dynamic approach to include the budgetary impact of all economic changes estimated using an enhanced Solow model. In that model, "output depends on the quantity and quality of the labor force, the size and composition of the capital stock, and the nation's technological progress," according to the CBO.⁶ In other words, the dynamic approach rationally assumes that more immigration will increase the population, which will have other economic effects

that result in a larger GDP. Holding tax laws constant, a higher GDP results in more tax payments. CBO has used this method twice in non-official budget estimates of immigration legislation.⁷

The conventional approach used by the CBO to estimate the budgetary impact of immigration legislation mechanically produces erroneous negative-biased net-fiscal estimates. CBO's conventional approach includes the higher costs of government benefits and excludes the higher taxes that would be paid by a greater number of workers and other dynamic economic effects that necessarily follow from an increase in lawful immigration.

CBO should default to using the population-change and dynamic modeling approaches for estimating the budgetary effects of immigration legislation or any other legislation that would increase the population and, hence, GDP of the United States. Adopting these approaches for immigration legislation would produce better estimates of the budgetary effects and are less likely to result in systematically biased estimates of the budgetary effects of immigration.

Sincerely,

Alex Nowrasteh

Vice President for Economic and Social Policy Studies, Cato Institute

¹ Congressional Budget Office, "[The Foreign-Born Population, the U.S. Economy, and the Federal Budget](#)," April 2023, p. 4; See Congressional Budget Office, "[Estimated Budgetary Effects of H.R. 4521, the America COMPETES Act of 2022](#)," February 4, 2022.

² Congressional Budget Office, "[How Changes in Immigration Policy Might Affect the Federal Budget](#)," January 2015, p. 19.

³ Douglas Elmendorf and Heidi Williams, "[How Does Accounting for Population Change Affect Estimates of the Effect of Immigration Policies on the Federal Budget?](#)" Penn Wharton Budget Model, January 18, 2024, p. 2.

⁴ Michael A. Clemens, "[The Fiscal Effect of Immigration: Reducing Bias in Influential Estimates](#)," IZA DP No. 15592, September 2022; Alex Nowrasteh, Sarah Eckhardt, and Michael Howard, "[The Fiscal Impact of Immigration in the United States](#)," Cato Institute White Paper, March 21, 2023, p. 131-134

⁵ Congressional Budget Office, "[H.R. 2131 Supplying Knowledge-based Immigrants and Lifting Levels of STEM Visas Act \(SKILLS Visa Act\)](#)," March 12, 2014; Congressional Budget Office, "[S. 744, Border Security, Economic Opportunity, and Immigration Modernization Act](#)," June 18, 2023; Congressional Budget Office, "[S. 2611, Comprehensive Immigration Reform Act of 2006](#)," May 16, 2006; Congressional Budget Office, "[S. 2611, Comprehensive Immigration Reform Act of 2006](#)," August 18, 2006.

⁶ Congressional Budget Office, "[The Economic Impact of S. 744, the Border Security, Economic Opportunity, and Immigration Modernization Act](#)," June 18, 2013, p. 14.

⁷ Congressional Budget Office, "[The Economic Impact of S. 744, the Border Security, Economic Opportunity, and Immigration Modernization Act](#)," June 18, 2013; Congressional Budget Office, "[S. 2611, Comprehensive Immigration Reform Act of 2006](#)," May 16, 2006.