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**COMPREHENSIVE IMMIGRATION REFORM**

# Citizenship or Something Less?

## Economic Implications for Arizona



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### Introduction

At the foundation of the current debate about immigration reform is the consensus that the 11 million unauthorized immigrants presently living in the United States are, for the most part, here permanently. Given this likelihood, what is the best way to address their status?

Leaders in both political parties are working on immigration reform from the starting point that some kind of legalization program is needed to address the status of this group, who in Arizona comprise about 5.5 percent of the population.

Should this reform program be a broad one eventually leading to U.S. citizenship? Or should it offer the unauthorized population some permanent status short of citizenship? Or, perhaps both?

The decision will be multifaceted, and it will affect the currently unauthorized and their families most directly. However, it is a policy decision that ultimately will affect all of Arizona and therefore is worth examining the possible effects that such options might have on the broader community, including economically.

Recent research into the economic value of naturalization suggests that a broad path to citizenship would have a significantly greater positive economic impact for Arizona than a form of legalization short of citizenship. Naturalized immigrants tend to have many traits associated with higher income, and the mere fact of citizenship *itself* usually means a

### Some policy points that could affect the impact of a legalization program:

- *Border security “triggers” before granting permanent status* – discussed in the U.S. Senate, could significantly delay the granting of permanent residency and citizenship
- *Work documentation requirements* – included in the U.S. Senate framework (but not in the White House’s), could be a major impediment for informal workers
- *Costs of applications or penalties* — high costs to join a legalization program or to naturalize could prevent many people from doing so.

significant economic impact — estimated in Arizona to be at least \$500 million in the first five years after naturalizations begin.

## **The proposals**

A number of broad frameworks are under discussion in Washington, D.C., but few details have been made available public. Bipartisan groups in the Senate and the House are reported to be negotiating legislative language, and the White House has developed some parameters, as well. An initial proposal for discussion is expected soon, perhaps this spring. Here are a few of the topics of discussion and likely ensuing debate:

### *Path to citizenship*

Unauthorized immigrants would immediately be granted a new, temporary legal status once they have fulfilled a number of requirements (*discussed below in greater detail*). After an established period, they would be able to gain Lawful Permanent Residency (LPR, often called a “green card”). At present, most people can apply for citizenship after having had a green card for five years. The U.S. Senate “Gang of Eight” – which includes Arizona Republicans John McCain and Jeff Flake – and President Barack Obama both broadly seem to follow this model, with recent reports suggesting that the Senate is discussing a 10-year path to LPR and a subsequent three-year path to citizenship. The White House, meanwhile, is discussing an eight-year path to LPR and five-year path to citizenship.<sup>i</sup>

### *Legal status*

Unauthorized immigrants would eventually be granted a permanent legal status, which is significantly different from LPR – especially given the restriction to prohibit those who qualify from becoming U.S. citizens. This method is preferred by some U.S. House Republicans, former Florida Gov. Jeb Bush<sup>ii</sup> and others who say the United States should not reward illegal entry with U.S. citizenship.

### *No “special path”*

Reportedly being discussed by a bipartisan group in the House, unauthorized immigrants would be granted provisional legal status. They would be able later to apply for LPR but only through a modified version of current channels (via a family sponsor or an employer). Eventually they would be allowed to seek citizenship by virtue of their green card. A large number of people without a family or employer sponsor, however, would not be able to gain LPR or, consequently, U.S. citizenship.<sup>iii</sup>

It seems any of these proposals would require applicants to meet requirements such as passing a criminal background check, paying any back taxes and a penalty, and

demonstrating an understanding of English and U.S. civics. There also seems to be a stronger consensus that an immigration bill would separately address the status of “DREAMers,” unauthorized immigrants brought to the United States as young children. The following assessments will therefore attempt to take DREAMers out of the equation.

Frameworks of immigration reform are moving targets, so this policy brief looks at two simplified models in order to measure their effects against each other:

1. A “path to citizenship” where unauthorized immigrants are immediately given temporary status, eventually gaining LPR, and being able to apply for citizenship after 13 years; and
2. “Non-citizenship legalization,” where unauthorized immigrants are immediately given temporary status, and after eight to 10 years are granted a permanent residency status that does not allow them to apply for citizenship.

### **Who in Arizona would be eligible?**

The most recent estimate for the unauthorized population in Arizona is 360,000.<sup>iv</sup> This number has fallen in recent years amid decreased economic opportunity, increased enforcement and tough state legislation, including Senate Bill 1070. But for the sake of this analysis we can assume Arizona’s unauthorized population is now stable. Between 50,000 and 54,000 of these unauthorized immigrants are current or potential “DREAMers.”<sup>v</sup> This leaves around 310,000 unauthorized immigrants in Arizona whose status would be addressed by a general legalization program on the federal level.

Who are these 310,000?<sup>vi</sup> Most unauthorized immigrants are workers. Labor force participation among unauthorized men is much higher than in the general population, though it is lower among women. Almost all are of working age, and very few are over age 65; a great many are parents, and most have been in the United States since before 2000.<sup>vii</sup>

Proceeding from an earlier estimate of the proportion of unauthorized immigrants in Arizona who are working,<sup>viii</sup> the unauthorized population contains around 190,000



workers today, which accounts for about 6.8 percent of Arizona workers.<sup>ix</sup> A 2007

study estimated the average earnings of a three-person unauthorized immigrant household to be \$36,000 per year, meaning most are low-income.<sup>x</sup>

### **How and why does citizenship affect immigrant earnings?**

Authorized immigrants earn much more on average than unauthorized immigrants, as do naturalized citizens in comparison to non-naturalized immigrants.<sup>xi</sup> However, naturalized citizens are likely to have many traits associated with higher income — for instance, being more educated and knowing English better than other immigrants.

Research has shown, though, that a substantial portion of this increase in income is attributable to immigration or citizenship status *by itself*. There is a difference in earnings between people who are similar in all ways except their status.

Any federal legalization program that broadly gives unauthorized immigrants a permanent status would likely result in a significant boost in earnings for that group. In this way the “first steps” of either a path to citizenship or a more basic legalization would have a similar effect. The experience of the 1986 Immigration Reform and Control Act (IRCA) has allowed for extensive study of its effects, and the clear consensus is that the most prominent economic impact of such a program is higher earnings for those legalized.<sup>xii</sup>

Coming out of the shadows, authorized immigrants can bargain more effectively with employers. They also are freer to invest in their own human capital. On the other hand, unauthorized immigrants face a “wage penalty” in comparison to authorized immigrants doing similar work, and this deepens the longer they stay unauthorized. A legalization program ceases the deepening of this penalty and results in relatively fast subsequent wage growth, allowing the legalized to partially “catch up.”<sup>xiii</sup>

Additionally, research has shown that becoming a naturalized citizen also has the effect of increasing an immigrant’s earnings, even when controlling for factors such as education levels, English-speaking ability and age.<sup>xiv</sup> There are two main reasons:<sup>xv</sup>

- Being a citizen allows an immigrant to compete for certain jobs (largely white-collar, and especially in government) that are available only to U.S. citizens. This increases job mobility.
- Becoming a citizen signals commitment to one’s life in the United States and the U.S. labor market. Employers are more willing to invest in a naturalized citizen’s skills and human capital. Research has suggested these impacts are not felt until an immigrant attains citizenship.

A study by policy analysts Manuel Pastor and Justin Scoggins, using extensive cross-sectional and longitudinal data, pegged naturalization *alone* — controlling for other important characteristics — as accounting for, on average, 8 percent to 11 percent higher earnings.<sup>xvi</sup>

### Possible economic impacts

A path to citizenship that causes additional earnings growth of this magnitude would present a large economic impact for Arizona that a simple legalization would not. Estimating this impact requires two things: looking forward to 2016 to estimate how many workers might naturalize, and estimating what they might be earning before naturalization.

Working from the figure of around 190,000 unauthorized Arizona workers, and considering the age demographics of the unauthorized population, allows for a reasonable estimate.<sup>xvii</sup> Taking out current workers who are probably DREAMers,<sup>xviii</sup> and subtracting the remaining population to turn 68 before 2026,<sup>xix</sup> this leaves an estimated 160,000 workers who would be eligible to naturalize in 2026. Their mean age would be about 51.

How many would naturalize? Around 40 percent of participants in the main IRCA legalization program had naturalized within the first five years possible,<sup>xx</sup> and 53 percent within the first 13 years.<sup>xxi</sup> The appeal of naturalization may be higher today amid increased enforcement, but for the sake of this estimate, it is reasonable to suppose that the impacts of a legalization program today would be similar — a 40 percent legalization rate in the first five years, and around 50 percent over time.



How much would these immigrants be earning? After legalization, IRCA immigrants leveled out earning on average 63 percent to 67 percent of the average earnings of native-born people their age, with older workers at the bottom of that range.<sup>xxii</sup> Since the average beneficiary would be in the 45 to 54 age range, this estimate works from BLS data to estimate average pre-naturalization individual annual earnings of about \$27,450.<sup>xxiii</sup>

Repeating Pastor and Scoggins’ methods with Arizona-specific estimates, what, then, might be the overall wage impact in Arizona?

	<i>From naturalization alone</i>	<i>Including industry effect</i>
Est. earnings (2011 USD)	\$27,450	\$27,450
Returns to naturalization	7.93%	11.22%
Incr. income (per worker)	\$2,176.79	\$3,079.89
Naturalizing workers	80,000	80,000
Aggregate increased income (per year)	\$174,142,800	\$246,391,200

A reasonable, conservative estimate is that a path to citizenship could mean about \$174 million to \$246 million in additional individual income a year in Arizona, and these additional earnings would go mostly to low-income families, making them more financially secure. It’s worth emphasizing that this is the effect that citizenship status *alone* has on earnings — apart from other attributes naturalized citizens are likely to have that could cause them to earn more.

Additional income also has a ripple effect through the economy via increased demand. Pastor and Scoggins, borrowing from scholarship on “demand multipliers,”<sup>xxiv</sup> recommend as a reasonable and conservative estimate a multiplier of \$1.17 of economic impact per additional \$1 in income.

The overall economic impact for Arizona then looks like this:

	<i>From naturalization alone</i>	<i>Including industry effect</i>
Rounded wage impact	\$174,000,000	\$246,000,000
Macroeconomic multiplier	1.17	1.17
Total demand-side impact	\$203,580,000	\$287,820,000



This means an overall economic impact in the ballpark of \$200 million to \$300 million per year for Arizona as a result of greater citizenship alone — one that would not result from a legalization program without citizenship.

Or, looking at it in a slightly subtler way, assuming that 40 percent of those eligible naturalize at a stable pace in the first five years:

Year	Additional naturalizations	Add. income (low bound)	Aggregate income impact
2026	12,800	\$27,862,912	\$27,862,912
2027	12,800	\$27,862,912	\$55,725,824
2028	12,800	\$27,862,912	\$83,588,736
2029	12,800	\$27,862,912	\$111,451,648
2030	12,800	\$27,862,912	\$139,314,560
Total			\$417,943,680
	Demand multiplier		1.17
	<u>Arizona economic impact</u>		<u>\$488,994,106</u>

The macroeconomic impact of a path to citizenship for Arizona could be conservatively estimated to be about \$500 million in the first five years. However, looking at the impact from only the demand side, as this exercise does, it is quite likely a significant underestimate of the economic impact of increased citizenship. This is because, as Pastor and Scoggins note, one effect of naturalization is greater investment in a worker's skills — a supply-side effect that increases the productivity of the workforce.<sup>xxv</sup>



## Implications for policy: Citizenship presents benefits

Research presents some important implications for the policy debate:

- *Significant, broadly shared economic benefits to citizenship:* There is strong evidence that a state such as Arizona stands to benefit significantly more economically from a path to citizenship than from legalization short of citizenship. Broader citizenship means increased earnings for beneficiaries and a more skilled workforce.
- *Possible implications for families and children:* Earnings increases would accrue mostly to lower-income workers, many who have children. Along with clear evidence children from more economically stable families perform better in school, there is some evidence that parents' legal status has an independent effect.<sup>xxvi</sup>
- *Drawbacks to programs that withhold permanent legal status from some:* Proposals that would exclude a significant number of unauthorized immigration from legal status may have a very different economic impact, due to evidence that legalization programs have a negative effect on the earnings of workers who remain unauthorized.<sup>xxvii</sup> Broadly extending legal status would in principle guard against this.
- *Removing unnecessary barriers to citizenship:* Given the potential benefits of naturalization, the estimate that only around half of eligible people would naturalize may be surprising. However, currently, 93 percent of eligible Hispanic immigrants who have not naturalized say they would if they could, and many cite administrative barriers or the cost of the citizenship application as a chief obstacle.<sup>xxviii</sup> As broader citizenship seems to have economic benefits, policy should consider lowering unnecessary administrative barriers to naturalizing.
- *Why wait?* Thirteen years is the fastest path to citizenship currently being proposed. It may be legislatively and administratively difficult to execute a legalization program faster than this. The question of how long to make the path should be considered in light of all the objectives of immigration reform legislation. However, it should be noted the longer the path, the longer the delay before communities reap the economic benefits of citizenship and the less these economic benefits become, as beneficiaries get older and retire.

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## Endnotes

<sup>i</sup> Shear, M. D. and Parker, A. (2013) "A Senate Plan Alters Waiting Periods for Immigration," *The New York Times*, March 17, 2013 (accessed March 19, 2013). Gomez, A (2013) "White House Immigration Plan Offers Path to Residency," *USA Today*, February 17, 2013 (accessed March 19, 2013).

<sup>ii</sup> Glueck, K. (2013) "Bob Goodlatte: No Need for Citizenship Path," *Politico*, February 21, 2013 (accessed March 19, 2013). "Jeb Bush Opposes Pathway to Citizenship," *Today Show* (video), March 4, 2013.

<sup>iii</sup> Harrison, D. (2013) "House Immigration Negotiators Mull Citizenship Compromise," *Roll Call*, February 28, 2013 (accessed March 19, 2013).

<sup>iv</sup> Hoefer, M., Rytina, N., and Baker, B. (2012) "Estimates of Unauthorized Immigrant Population Residing in the United States: January 2011." Department of Homeland Security, Office of Immigration Statistics: March 2012.

<sup>v</sup> Immigration Policy Center (2012) "Who and Where the DREAMers Are: A Demographic Profile of Immigrants Who Might Benefit from the Obama Administration's Deferred Action Initiative." July 2012.

<sup>vi</sup> We assume (safely) that Arizona's unauthorized population is broadly similar to the national one.

<sup>vii</sup> Passel, J. S. and Cohn, D. (2009) *A Portrait of Unauthorized Immigrants in the United States*. Washington: Pew Hispanic Center.

<sup>viii</sup> Hinojosa-Ojeda, R. (2012) "The Consequences of Legalization versus Mass Deportation in Arizona: Findings and Methodology." Washington: Center for American Progress.

<sup>ix</sup> This is an estimate working from Hinojosa-Ojeda's (2012) estimate, but it does not re-conduct his methodology (due to a lack of data). Instead, it more crudely adjusts the estimated number of workers to an estimate of the overall unauthorized population that is 40,000 people lower than Hinojosa-Ojeda used at the time of his analysis. The figure of 190,000 unauthorized workers in Arizona is rounded, and does not account for improvements in the labor market in the past three to four years, so in that way it is conservative. The calculation regarding the portion of all Arizona workers who are unauthorized derives from BLS Current Population Survey data, which recently has placed the number of workers in Arizona at around 2,790,000.

<sup>x</sup> Passel and Cohn (2009). Furthermore, immigrant populations' incomes are especially prone to wax and wane with economic tides.

<sup>xi</sup> Rivera-Batiz, F. L. (1999) "Undocumented Workers in the Labor Market: An Analysis of the Earnings of Legal and Illegal Mexican Immigrants in the United States," *Journal of Population Economics* 12: 91-116.

<sup>xii</sup> Orrenius, P. M. and Zavodny, M. (2012) "The Economic Consequences of Amnesty for Unauthorized Immigrants," *Cato Journal* 32(1): 85-106.

<sup>xiii</sup> Kossoudji, S. A. and Cobb-Clark, D. A. (2002) "Coming out of the Shadows: Learning about Legal Status and Wages from the Legalized Population," *Journal of Labor Economics* 20(3): 598-628; Rivera-Batiz (1999).

<sup>xiv</sup> Pastor, M. and Scoggins, J. (2012) *Citizen Gain: The Economic Benefits of Naturalization for Immigrants and the Economy*. Los Angeles: Center for the Study of Immigrant Integration.

<sup>xv</sup> Bratsberg, B., Ragan, J. F., and Nassir, Z. M. (2002) "The Effect of Naturalization on Wage Growth: A Panel Study of Young Male Immigrants," *Journal of Labor Economics* 20(3): 568-597.

<sup>xvi</sup> As Pastor and Scoggins explain, the 7.93 percent figure controls for occupational characteristics and industry, as well as for human capital characteristics, age, household characteristics, geographic origin, length of time in the U.S., etc. However, because increased job mobility is a potential result of naturalization, it is not clear that occupational characteristics should be controlled for in understanding the impact of naturalization. The 11 percent figure results from not controlling for occupation or industry. It is reasonable to see the potential impact therefore as probably closer to 11 percent, but the 8 percent estimate is a conservative figure.

<sup>xvii</sup> This estimate works from two studies of the age structure of the unauthorized population: Passel and Cohn (2009); and Hoefer, Rytina and Baker (2012).

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<sup>xviii</sup> The rough assumption is that unauthorized immigrants currently under 26 are “DREAMers.”

<sup>xix</sup> This is about 10 percent of the remaining total.

<sup>xx</sup> Rytina, N. (2002) “IRCA Legalization Effects: Lawful Permanent Residence and Naturalization through 2001” (Conference Paper).

<sup>xxi</sup> Baker, B. C. (2010) “Naturalization Rates among IRCA Immigrants: A 2009 Update,” Office of Immigration Statistics, Department of Homeland Security, October 2010.

<sup>xxii</sup> Rob Paral and Associates (2009) Economic Progress via Legalization: Lessons from the Last Legalization Program. Washington: Immigration Policy Center.

<sup>xxiii</sup> 2011 dollars. This is conservative in that it assumes no real wage growth on average between 2011 and 2026. This estimate takes 2011 Bureau of Labor Statistics data on the individual earnings of the native-born in that age group and estimates the average income for people on the eve of naturalization eligibility in 2026 would be 63 percent of that. This is clearly a rough estimate, but the number accords well with Pastor and Scoggins’ rigorous examination of the earnings of the non-naturalized. It might also be objected that a new legalization’s impact may be less than IRCA, because it would legalize more people; the newly legalized, however, would have several more years of possible wage growth to “catch up” than under IRCA, a faster program. Furthermore, because average annual earnings in Arizona are less than the national average, the figure is discounted 4.5 percent. (See: Bureau of Labor Statistics (2012) “Foreign-Born Workers: Labor Force Characteristics — 2011,” News Release, Bureau of Labor Statistics, May 24, 2012. See also: Bureau of Labor Statistics (2013) “County Employment and Wages in Arizona — Second Quarter 2012,” News Release, Western Information Office, Bureau of Labor Statistics, February 27, 2013.)

<sup>xxiv</sup> Zandi, M. (2011) “At Last, the U.S. Begins a Serious Fiscal Debate,” *Moody’s Analytics*, April 14, 2011.

<sup>xxv</sup> Orrenius and Zavodny (2012) also note that legalization could result in less flexibility in the labor market, though they aptly question whether unauthorized labor is truly flexible in a high-enforcement environment. They also note that a macroeconomic impact might, in principle, be blunted by some amount of an increase in wages may be passed to consumers through higher prices.

<sup>xxvi</sup> Bean, F. D., Leach, M. A., Brown, S. K., Bachmeier, J. D., and Hipp, J. R. (2011) “The Educational Legacy of Unauthorized Migration: Comparisons Across U.S.-Immigrant Groups in How Parents’ Status Affects Their Offspring,” *International Migration Review* 45(2): 348-385.

<sup>xxvii</sup> Davila, A., Pagan, J. A., and Grau, M. V. (1998) “The Impact of IRCA on the Job Opportunities and Earnings of Mexican-American and Hispanic-American Workers,” *International Migration Review* 32(1): 79-95.

<sup>xxviii</sup> Gonzalez-Barrera, A., Lopez, M. H., Passel, J. S., and Taylor, D. (2013) The Path Not Taken: Two Thirds of Legal Mexican Immigrants are Not U.S. Citizens. Washington: Pew Hispanic Center.

## About the chief researcher/author

Mike Slaven is a former staff member of the Arizona Governor’s Office and the U.S. Department of Homeland Security. He has a master’s degree from the University of Edinburgh in Scotland, and was a U.S. Fulbright Scholar in the United Kingdom researching immigration policy. Slaven can be reached at [mcslaven@gmail.com](mailto:mcslaven@gmail.com) or on Twitter @mcslaven.

## Morrison Institute Latino Public Policy Center

The Latino Center is an extension of Morrison Institute for Public Policy, an Arizona State University resource. The Latino Center’s mission is to bridge the gap of understanding between Arizona policy issues and Latino issues, which due to rapidly changing demographics no longer can be viewed separately in terms of impact or future. Joseph Garcia is center director.



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