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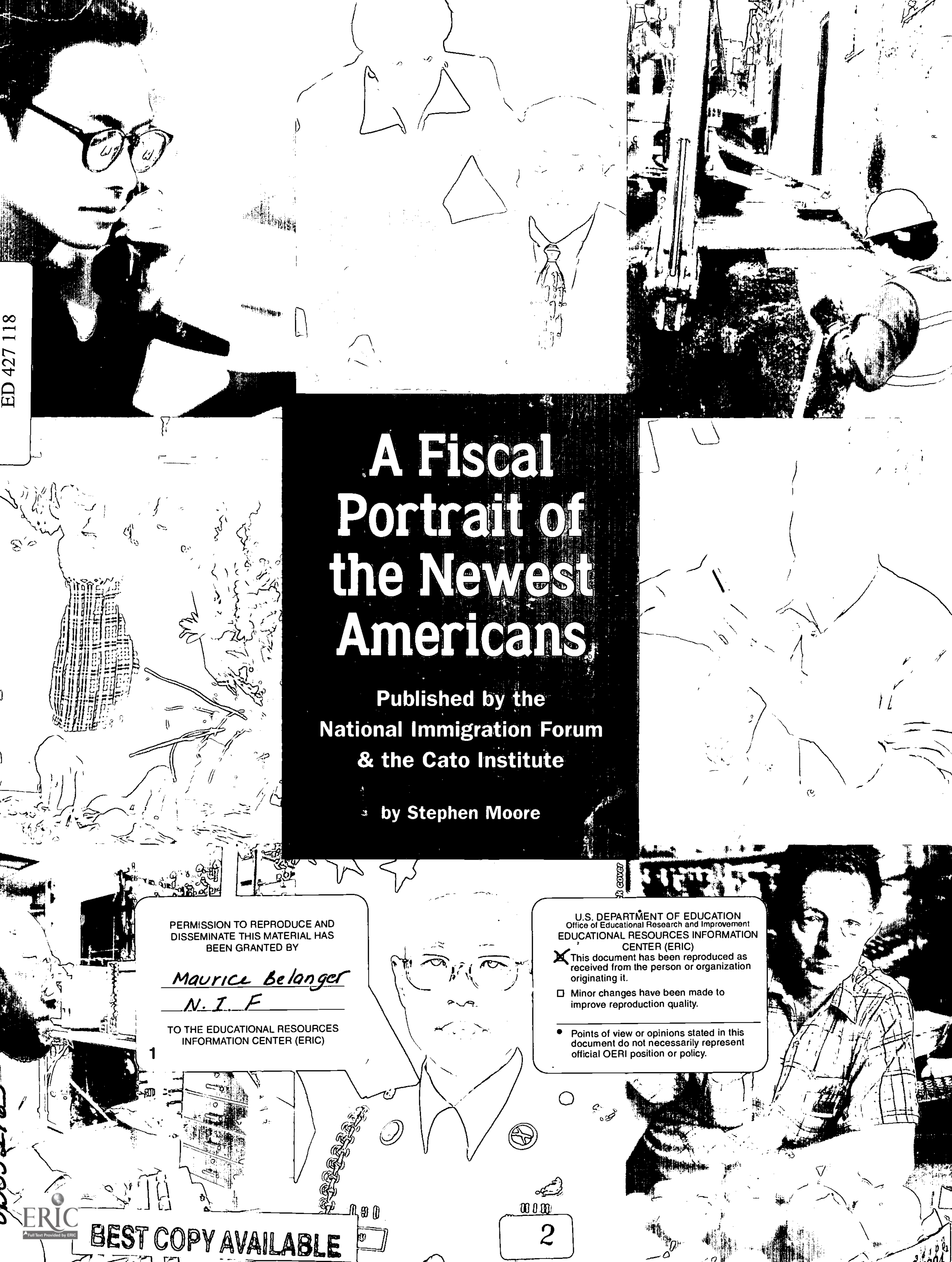
ABSTRACT

The fiscal impact the 25 million immigrants now living in the United States have on the country's economy were studied, focusing on the total taxes paid by immigrants each year and whether these taxes cover the costs of public services they use. Census data and other national studies were used to answer these questions. Overall, it is apparent that immigrants and their children bring long-term economic benefits to the United States. The National Research Council (NRC) of the National Academy of Sciences has found that immigrants raise the incomes of U.S.-born workers by at least $10 billion each year. The NRC also estimates that the typical immigrant and his or her children pay $80,000 more in taxes than they will receive in federal, state, or local benefits over their lifetimes. Immigrants who become citizens typically pay more in taxes than do native-born Americans. Conservative estimates suggest that immigrant families paid $133 billion in direct taxes to federal, state, and local governments in 1997. The best predictors of immigrant payment of taxes are skills, education, and ability to speak English. Immigrants with lower levels of education and limited English proficiency are more likely to use government services. The age profile of immigrants, who tend to arrive in the prime of their working years, makes them large net contributors to the Social Security and Medicare programs. The value of immigrants should not be measured simply by their fiscal impact. The enrichment of culture and overall vitality they bring to the United States are benefits to all Americans. (Contains 9 tables, 9 figures, and 107 endnotes.) (SLD)



A Fiscal Portrait of the Newest Americans

Published by the
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& the Cato Institute

by Stephen Moore

In memory of Julian Simon

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Executive Summary

Immigrants wear many hats in American society. They are family members, students, workers, business owners, investors, clergymen, and members of the armed services—to name just a few of their roles. But immigrants—like native-born citizens—are also taxpayers. Through their tax payments, America's immigrants help finance the costs of schools, health care, roads, welfare payments, Social Security, and the nation's defense. Of course, immigrants are also users and beneficiaries of these government programs.

This study investigates the fiscal impact of the 25 million immigrants—legal immigrants, refugees, and undocumented immigrants—now living in the United States. The study reviews the findings of more than two dozen recently published studies from the nation's most prestigious universities and research institutions. The study also derives new fiscal estimates based on the latest 1996 data recently released from the U.S. Census Bureau to help answer two critical public finance issues related to immigrants.

First: How much total taxes do immigrants pay each year?

Second: Do the taxes immigrants pay cover the cost of the public services they use?

To be sure, there is far from complete agreement on these issues. But our key conclusions reflect what we believe is an emerging consensus on the issue of immigrants as taxpayers:

- Immigrants and their children bring long-term economic benefits to the United States as a whole. In the most comprehensive study ever conducted on immigration, the National Research Council of the National Academy of Sciences (NRC) found that immigrants raise the incomes of U.S.-born workers by at least $10 billion each year. This estimate is highly conservative because it does not include the impact of immigrant-owned businesses or the impact of highly-skilled immigrants on overall productivity. Still, the NRC estimates that the typical immigrant and his or her children pay an estimated $80,000 more in taxes than they will receive in local, state, and federal benefits over their lifetimes.

- Immigrants who become U.S. citizens typically pay more in taxes than do native-born Americans. Drawing upon data from the U.S. Census Bureau Current Population Survey, the CRS recently found that families with an adult, foreign-born, naturalized citizen actually have <u>higher</u> adjusted gross incomes—averaging $40,502—than families with U.S.-born citizens only ($35,249). The immigrants' taxable income average $32,585, compared with $27,076 for families with all native-born members. The federal taxes paid by families with a naturalized citizen average $6,580 per year, compared with $5,070 for U.S.-born-only families.

- By conservative estimates, in 1997 immigrant households paid an estimated $133 billion in direct taxes to federal, state, and local governments.

■ Immigrant businesses are a source of substantial economic and fiscal gain for U.S. citizens. In this study we identify 10 high-tech firms founded by immigrants whose total revenues topped $28 billion in 1996 and whose total employment totaled nearly 70,000 U.S. citizens. Most studies on the fiscal impact of immigrants do not account for the taxes paid by immigrant-formed businesses and the tax streams generated from the U.S.-born workers employed by those firms. For this reason, in our estimation, most studies underestimate the tax payments of immigrants by at least $29 billion a year. Adding the tax receipts paid by immigrant businesses brings the total annual tax payments of immigrants to about $162 billion.

■ Not all immigrants make the same tax payments or impose the same costs. The best predictors of immigrant success and thus their tax payments are their skills, their education, and their ability to speak English. In general, less-skilled, less-educated immigrants and non-English-speaking immigrants use more government services and pay less in taxes than those who are highly skilled.

■ Immigrants' earnings rise over time as they continue to climb the economic ladder of success in America. Hence, in their first low-earning years in the United States, immigrants typically are net drains on the public coffers, but over time—usually after 10 to 15 years in the United States—they turn into net contributors. This economic assimilation pattern varies by ethnicity and country of origin, but it is as evident today as it was 30 years ago, when researchers first began to study the rate of economic success by immigrants over time.

■ The age profile of immigrants is one of the key characteristics that makes them a fiscal bargain for native-born U.S. taxpayers. Most immigrants arrive in the United States in the prime of their working years. For example, more than 70 percent of immigrants are over the age of 18 when they arrive in the United States. That means that there are roughly 17.5 million immigrants in the United States today whose education and upbringing were paid for by the citizens of the sending country, not American taxpayers. The total discounted present value windfall to the United States of obtaining this human capital at no expense to American taxpayers is roughly $1.43 trillion. So immigration can be thought of as an enormous $1.43 trillion transfer of wealth from the rest of the world to the United States.

■ Another fiscal consequence of the age profile of immigrants is that they are huge net contributors to the Social Security and Medicare programs. Only 3 percent of immigrants are over the age of 65 when they enter the United States, whereas 12 percent of Americans are over 65—and that percentage will grow substantially in the future. This study estimates the total value to the Social Security system from current levels of immigration based on the calculations of the actuaries at the Social Security Administration. The study finds that the total net benefit (taxes paid over benefits received) to the Social Security system in today's dollars from continuing current levels of immigration is nearly $500 billion for the 1998-2022 period and nearly $2.0 trillion through 2072. Continuing immigration is an essential component to solving the long-term problem of financing the Social Security system.

■ Immigrants use more state and local services—particularly schools, hospitals, and roads—than they pay for in state and local taxes. The average immigrant imposes a net lifetime fiscal cost on state and local governments of $25,000, according to the NRC (under the NRC analysis, natives are a net cost to states and localities as well). There is no evidence that states or cities with large immigrant populations perform worse economically than those with small immigrant populations. In fact, just the opposite is generally true.

■ There are recent signs of increased poverty rates and increased use of welfare—such as Supplemental Security Income and food stamps—among new immigrants. Nonetheless, the claim that there has been a decline in immigrant quality has been exaggerated (because of statistical problems comparing one generation of immigrants with another) and does not reduce the overall favorable fiscal impact of the foreign born. Only refugees and elderly immigrants are more likely to receive welfare than natives. Working-age immigrants who have been in the United States for more than 10 years are less likely to receive welfare than natives, according to a 1998 Urban Institute study. Moreover, given that recent welfare rules enacted by Congress in 1996 will make newly-arriving immigrants ineligible for most welfare benefits, the net fiscal benefit of future immigrants will be higher than it is today.

Of course, the value of immigrants is not primarily measured by the dollar calculation of their fiscal impact. Immigrants contribute to America in many ways other than the size of their tax payments. Their enrichment of our culture and the overall vitality they bring to American society are not measured here—and in many cases are immeasurable—yet they are vital benefits to all Americans.

It is also worth emphasizing that many of the immigrants who have made the greatest contributions to our society in recent times came to the United States without the characteristics that often presage success. Andrew Grove, co-founder of Intel, and his family came to America as refugees with no money, no skills, and no special prospects for greatness. Probably no economist would have predicted the greatness he achieved. Just as with natives, it is impossible to predict with great accuracy who will succeed and who will fail in American society.

Overall, the research findings cited in this report suggest, first, that the American economy is greatly enriched by immigrants of all educational levels and ethnicities and, second, that immigrants are a fiscal bargain for American taxpayers.

Introduction

Over the past few years, increased research has been conducted to determine the overall fiscal impact of immigrants. This report summarizes some of the major findings on the issue. It also provides some estimates of the annual size of tax payments by immigrants.

This report addresses the equally critical issue of whether immigrants' tax payments cover their use of government services. The issue is important because it can lead us to broader conclusions about whether the 800,000 legal immigrants admitted to the United States each year are burdens or benefits to U.S.-born citizens.

The issue of the fiscal impact of immigration is of concern to both federal and local officials. For example, California officials have complained that the state's rapidly increasing budget is a result of expanded social services used by low-income immigrants.[1] Other governors of states with high immigrant populations, including Lawton Chiles of Florida, have in the past requested federal "impact" assistance to help pay the costs of settling new immigrants.[2]

A highly publicized study by economist Donald Huddle has suggested that immigrants cost U.S. taxpayers a net $40 billion to $50 billion a year.[3] That study has been widely refuted, but its conclusions remain part of the popular folklore about immigrants.[4] The findings by Huddle and anti-immigrant groups such as the Federation for American Immigration Reform—have become a source of understandable concern for American-born workers, who may worry that their taxes are being used to finance programs used by immigrants, not services they use and benefit from themselves.

A growing body of research in recent years has provided a much more accurate view of the fiscal impact of immigrants—particularly the taxes they pay.[5] This study provides the highlights of that research and flags general areas of consensus in the findings. Of course, there are many areas where respected economists and research institutions arrive at conflicting findings on the issue of taxes paid and benefits used by immigrants. And yes, there appear to be worrisome trends related to growing poverty levels and declining earnings potential among some immigrant groups and a rise in public assistance by others.[6] This study suggests that those trends may be exaggerated.

In any case, the overall picture that emerges from this body of research regarding the contributions that immigrants provide to the overall fiscal health of the United States is positive. The comprehensive study by the National Research Council (NRC) on the economic impact of immigrants calculated a $10 billion annual net windfall to native-born Americans from immigrants.[7] In an $8 trillion economy such wealth transfer is quite small, but the important point is that the impact on natives was found to be positive, not negative. That is to say, without immigrants, native-born Americans would be poorer, not richer. This study finds that a fuller accounting of all benefits and costs of immigrants would lead to the conclusion that the NRC's estimate of $10 billion is quite conservative—a point the NRC authors concede. In other words, the net benefits of immigration to native-born citizens may well be substantially higher than that.[8]

The intention of this study is to examine the fiscal impact of legal immigrants to the United States. The legal immigrant population is by far the more important group to study. The vast majority of immigrants in the United States at any point in time were admitted legally. From a public policy standpoint, we are most interested in the impact of those who come in to the nation through legal means and add to the permanent population of American citizens rather than those who are here unlawfully and temporarily. The vast majority of the foreign born in the United States are here legally. There are an estimated 4 to 6 million illegal immigrants in the United States today versus some 21 million legal immigrants. In general, we know more about the impact of legal than of illegal immigrants.[9]

Unfortunately, the Census Bureau data on which most contemporary immigration research is based fails to distinguish between legally admitted and undocumented immigrants. (It also fails to distinguish between those admitted as immigrants and those admitted as refugees.) Hence, the reader should be warned that most of the immigrant classifications in this report—especially from more recent years—include undocumented immigrants. This defect of the data biases the findings of this study and those of most other studies on immigration, against the legal immigrant population. Why? Because undocumented immigrants do less well economically than the legal foreign born, especially those who eventually become naturalized citizens. Almost all of the conclusions of this report therefore understate the fiscal impact of legal immigrants.

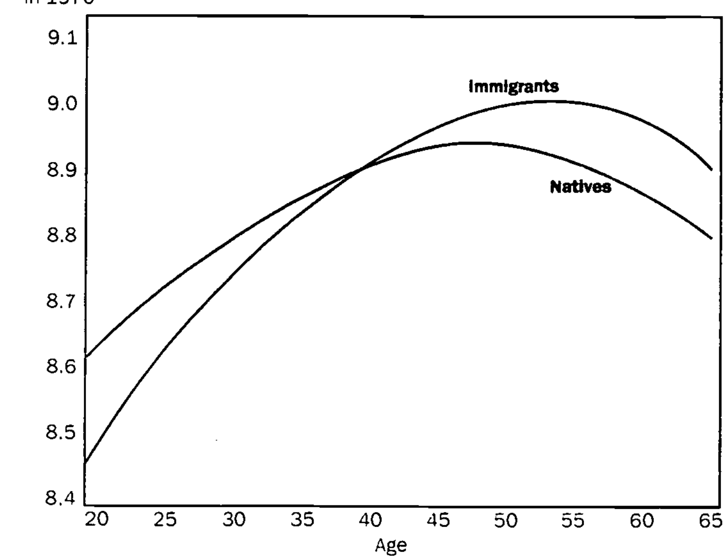
This study identifies three major factors that explain why the fiscal impact of immigrants is positive. First, immigrants tend to come to the United States with skills different from those of American citizens. The different skill compositions and cultural backgrounds of immigrants relative to those of the native born are an important, but hard to quantify, lubricant for the American economy.[10] Second, immigrants tend to come when they are at the start of their most productive working years. That means that the costs of educating and rearing immigrants are borne by the citizens of the sending country. And third, the pay-as-you-go feature of Social Security and Medicare makes new immigrants an immediate windfall to these largest of federal programs because their payroll taxes pay for benefits that go to native seniors, not immigrant seniors.

The Impact of Immigrants: A Lifetime Balance Sheet Approach

In any given year the net fiscal impact of immigrants may be positive or negative. At a time when immigration levels are increasing, as in recent decades, a snapshot assessment of the total amount of services used by immigrants versus their tax payments would lead to negative but often misleading conclusions. During a period of rising immigration, it would appear for a single-year analysis that the net impact on government balance sheets would be a liability, not a benefit.[11]

Why? Because when immigrants first come to the United States they tend to have low earnings. The taxes that individuals—whether natives or immigrants—pay are a direct function of their earnings. Those with low earnings pay little in taxes. but as earnings rise tax payments rise at a faster pace because of the overall modest progressivity of the U.S. system of taxation.

Figure 1
The Cross-Section Age-Earnings Profiles of Immigrants and Natives in the United States, 1970



Source: Chiswick (1978. Table 2, Column 3). All the variables in the regression are evaluated at the means of the immigrant sample. and immigrants are assumed to enter the United States at age 20.

Immigrants to the United States tend to have low initial earnings for several reasons. In their new country they face immediate handicaps: the strangeness of the culture and an unfamiliarity with the way things are done, the language barrier, the lack of contacts that help in getting started in the work force, and a general tendency to be willing to start at the low end of the economic ladder.

But one of the peculiar aspects of immigration that social scientists have noted for many decades is the rapid rate of economic advancement of immigrants in the work force. Of course, all workers in the U.S. economy should see their incomes rise over time as they gain experience and on-the-job training in the labor force. A 22-year-old entrant into the labor market generally will have a substantially lower value in the job market than a 40-year-old with, say, 20 years experience on the job. This is true of immigrants and natives.

Immigrants experience the same rise in income as they gain experience in the work force. But what is unique about the earnings pattern of immigrants is that they often overcome the special handicaps that initially hold their earnings down to abnormally low levels. Thus, their earnings rise at an especially rapid rate. That phenomenon. known as the economic assimilation rate of immigrants, was first documented and estimated by economist Barry Chiswick of the University of Illinois, Chicago.[12] Examining 1970 Census Bureau data, Chiswick noted:

> **Immigrants start with earnings about 17 percent below that of natives, but after 10-15 years working in the U.S. they tend to "overtake" the average wage level and thereafter rise above the average wage.[13]**

Figure 1 (above) shows this rate of economic catch-up. The earnings pattern of immigrants implies that their tax payments are low at the start of their working years, average after 10 to 20 years, and above average thereafter.

This finding has been challenged by Harvard University economist George Borjas, who argues that the economic assimilation process of the past has slowed appreciably because of the lower average skill levels of more recent cohorts of immigrants.[14] Borjas finds that the initial earnings disadvantage of immigrants versus native-born Americans was 17 percent for immigrants who arrived in the 1960s but rose to 28 percent for those who arrived in the 1970s and 32 percent for those who arrived in the 1980s (see Table 1 below). Borjas concludes:

> **It is extremely unlikely that the earnings of more recent cohorts will ever reach parity with (let alone overtake) the earnings of American-born workers.[15]**

Although analysis of the 1990 Census data does indicate that average skills, education levels, and initial earnings of immigrants have slipped somewhat relative to those of natives (partly because of the legalization of former illegal immigrants granted amnesty in 1986), it also suggests that Borjas may be overly pessimistic in measuring the economic assimilation rate of recent immigrants. One potential problem with the Borjas data shown in Table 1 is that the calculation assumes comparability of data from different censuses. That assumption appears faulty. There is evidence that each of the subsequent Censuses examined by Borjas includes a larger percentage of illegal immigrants.[16] It is possible, therefore, that the quality of legal immigrants is not declining as much as Borjas' data indicate, but rather that the averages are being driven down by the fact that the samples are successively counting a larger share of less economically successful, undocumented immigrants.

More recent studies, cited below, suggest that although initial earnings for new immigrants may be lower, newer immigrants experience a more rapid economic ascent in the United States than did previous immigrant groups.[17]

Table 1

Percentage Wage Differential Between Immigrant and Native Men, 1970–1990

Group	1970	1980	1990
All immigrants	0.9	–9.2	–15.2
Cohort			
1985–1989	—	—	–31.7
1975–1979	—	–27.6	–17.8
1965–1969	–16.6	–7.8	1.1
1950–1959	5.6	5.7	19.6
Pre-1950	10.3	10.6	26.2

Source: George Borjas' tabulations from the 1970, 1980, and 1990 Public Use Samples of the U.S. Census. The statistics are calculated in the subsample of men aged 25 to 64 who work in the civilian sector, who are not self-employed, and who do not reside in group quarters.

The importance of the economic assimilation process is that it underscores the basic inadequacies of a single-year snapshot of the fiscal impact of immigrants. This is one reason, among many, why the well-cited study by Donald Huddle on the fiscal costs of immigrants is flawed and why Borjas's census analysis fails to capture the lifetime impact of immigrants.

To dramatize the flaw of that standard technique, consider, for example, if we tried to assess the fiscal impact of a particular native-born American male. If we examined his impact with a snapshot when he was 12 years old, we would determine that he was a huge fiscal drain: all costs (schooling, health care, infrastructure use) and no benefits in the form of taxes paid. If we examined his impact when he was 40 years old, we would think he was a great fiscal bargain, paying large amounts of taxes and not making especially heavy use of services. If we took another snapshot when he reached 70 and had retired, again we would conclude that he was a bad deal for younger taxpayers. Three snapshots at different points in time, each yielding a different conclusion. Only a balancing of the taxes paid and the benefits used over the man's lifetime could tell us anything meaningful about whether he paid his own way or not.

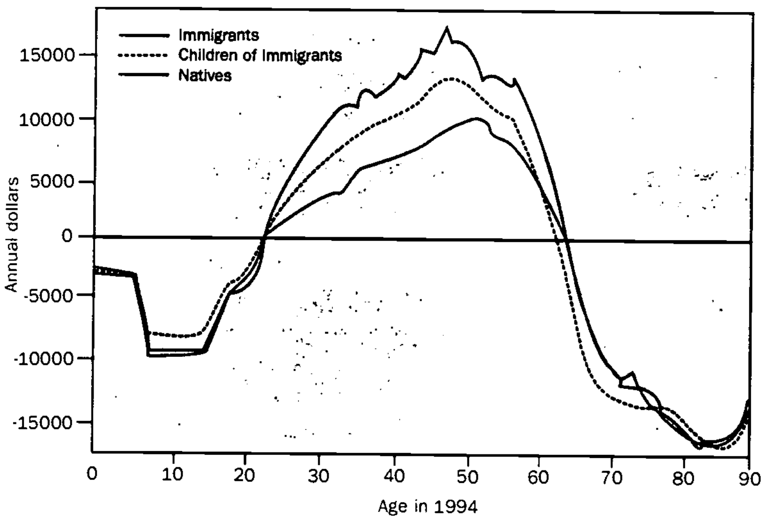
So almost all of the useful studies we examine in this report adopt a lifetime profile. Figure 2 (see next page) captures the long-term dynamic by showing a standard fiscal lifetime profile of three demographic groups—natives, immigrants, and children of immigrants. The profile is not substantially different for any of the three groups. Here is how the dynamic is described by economist Adam Zaretsky of the Federal Reserve Bank of St. Louis:

> **As the figure shows, all groups get about the same amount of government benefits during childhood and retirement, when most benefits are received. During the working years, however, the amount of taxes each group pays is quite different. Recent immigrants pay the least, but their children—who tend to make more money and live in high-income/high-tax states—pay the most.[18]**

Beneficial Age Characteristics of Immigrants

But even the lifetime comparison shown in Figure 2 (below) fails to capture the full fiscal benefit of immigrants. Immigrants, by definition, were not born in the United States. Typically, most, if not all, of the child-rearing costs in the early years of an immigrant's life (depicted in Figure 2) are not borne by U.S. taxpayers but by the taxpayers in the sending country. Moreover, because immigrants do not generally arrive when they are aged, they make less use of our expensive government programs that benefit senior citizens.

Figure 2
Net Fiscal Impact of Immigrants



Source: National Research Council (1997).

In other words, the age profile of immigrants is one of the key characteristics that makes them a fiscal bargain for native-born U.S. taxpayers.

To understand the point more clearly, let us assume for a moment that immigrants are just like natives in every respect except for the fact that they were not born here. (Of course, we know that immigrants are different and that their differences from natives make them generally more desirable.) In such a case, the only difference between natives and the foreign born would be their age. Table 2 (see next page) provides the comparison. The data come from the most recent Census surveys conducted in 1996.

The age-profile data underscore three beneficial immigrant characteristics:

1. Most immigrants were not educated or reared in the United States. The data in the last column of Table 2 indicate that only slightly more than one of four immigrants arrive when they are below the age of 18.[19] For nearly three of four of the other immigrants who came after the age of 18, the public costs associated with child rearing are not borne by U.S. taxpayers. The primary public costs are education and in some cases day care and health care, costs that are borne by the sending country.

2. Most immigrants come during the prime of their working years. The last column of Table 2 also shows us that only 28.7 percent of immigrants arrived in the United States as a child or a retired person. That means that 7 of 10 are in their working years—and thus paying income and payroll taxes. Only 6 of 10 American-born citizens are in their working years at any point in time.

3. Few immigrants arrive when they are aged. Only 3.3 percent of immigrants are over the age of 65 when they enter the United States.[20] The corresponding percentage for native-born Americans is 12 percent.

What do age-profile comparisons tell us about the public sector costs of and taxes paid by immigrants? Plenty. Take the fiscal impact derived from the fact that 70 percent of immigrants were not educated in the United States—at least from kindergarten through high school. The implication is that the human capital investment in those immigrants is a benefit provided to the United States at zero cost to U.S. taxpayers. Those are by no means trivial costs.

Almost two-thirds (63.2 percent) of recent immigrants to the United States have at least a high school degree, according to 1996 Census data.[21] The median level of education of newly arriving immigrants is roughly 10 years, or roughly 2 years less than for U.S. citizens. That is almost exclusively education that was attained abroad, not in the United States. There is evidence that the quality of education attained abroad is inferior to that received in the United States with respect to measurements of future earnings. Economist Jin Heum Park of Princeton found that schooling in the United States has higher labor market returns than schooling abroad.[22] Robert F. Schoeni, Kevin McCarthy, and Georges Vernez of Rand also have concluded that education quality is higher for immigrants educated in the United States.[23]

Table 2
Age Profile of Native Born Versus Foreign Born, 1996

Age:	Native Born	All Foreign Born	Recent Arrivals (1990-1996)
Under 18	28.5%	11.2%	25.4%
18-34	24.9%	33.9%	47.6%
Over 65	12.1%	11.2%	3.3%

Source: U.S. Bureau of the Census, Current Population Survey, "Selected Characteristics of Natives and the Foreign-Born Population," 1996, Table B, P20-494.

Even accounting for immigrants' slightly lower levels of average education and the lower quality of education attained abroad for a given number of years of schooling, there is still a substantial net fiscal benefit to U.S. taxpayers in not having to pay the education costs of most immigrants.

How large are those savings to government coffers? The per-pupil cost of educating a child in the U.S. public school system was $6,100 in 1996, a figure we estimate has risen to $6,500 by 1998.[24] The average immigrant receives almost 10 years of his or her schooling abroad. Multiplying $6,500 times 10 years of schooling yields a total educational cost savings per immigrant of $65,000.

But to assess the current total value of that education received in the past, we have to calculate the discounted present value of those human capital investment dollars. In other words, if the money spent on educating a child over 10 years were invested in an investment of equal risk and rate of return elsewhere, how much would that investment be worth today?

We use a conservative discount rate of 5 percent, which is below the rate of return on a long-term government bond. A stream of income of $6,500 invested annually over 10 years and earning a 5 percent annual rate of return would yield a total dollar amount of $81,756. That is the amount of savings to U.S. taxpayers today of not having to pay to educate the average newly-arriving immigrant.

There are roughly 25 million immigrants in the United States. Roughly 70 percent, or 17.5 million, were educated elsewhere. The total discounted present value windfall to the U.S. taxpayer is roughly $1.43 trillion over the lifetime of all immigrants. That is to say, the 25 million immigrants in the United States today constitute an enormous $1.43 trillion transfer of wealth from the rest of the world to the United States. Most countries provide free public education to children in the hope that the returns on that education will be recouped by the government through the tax payments made by the educated adult when he or she works and pays taxes. The United States receives all of the tax payments made by those immigrant workers, without bearing virtually any of the cost of educating them.

Table 3
Educational Attainment: Immigrants Versus Natives, 1996
Age 25 and Over

	Native Born	All Foreign Born	Recent Arrivals (1990-1996)
Not a High School Grad	16%	36%	37%
Bachelors Degree	16%	15%	17%
Graduate Degree	8%	9%	12%

Source: U.S. Bureau of the Census, Current Population Survey, "Selected Characteristics of Natives and the Foreign-Born Population," 1996, Table B, P20-494.

The $1.43 trillion figure is somewhat overstated to the extent that immigrants' education abroad is worth less than education attained in the United States. But it is understated to the extent that there are other publicly-financed services provided to children, such as day care and health care, that are not included in the analysis.

Of course, children born to immigrants in the United States impose public schooling costs on U.S. taxpayers. (If the children of an immigrant were not born here, they too would be counted as immigrants in the statistics in Table 2.) But the educational costs will be recouped when those children start working, just as is the case for the children of natives. Education is an investment. As the highly motivated children of immigrants are educated and begin to apply their education by working and paying taxes, the social return on that investment becomes evident. During the span of their lifetime, those tax-paying descendants of immigrants will not only more than offset the costs associated with their public education but will also compensate for the use of entitlement benefits by their parents as they age.[25]

Immigrants as Human Capital

The most valuable and the scarcest asset in the global economy today is human capital. That point has recently been emphasized by Nobel prize-winning economist Gary Becker of the University of Chicago. According to Becker:

> **Human capital has become the most important form of wealth in America.... Since wages and salaries account for over 75 percent of the national incomes of developed countries, it should be no surprise that human capital is estimated to be 3 to 4 times the value of stocks, bonds, housing and other assets.** [26]

Immigrants are essentially imported human capital that arrives at virtually no cost to native-born Americans. But immigrants are not just more people. Their human capital is qualitatively distinctive from that of native-born Americans in several important respects. Immigrants have unique cultural backgrounds, educational levels, skill profiles, language proficiencies, technical capabilities, and propensities for risk taking. Because immigrants have different levels and types of skills than natives, they often fill vital niches at the high and low skills ends of the labor market.[27] As economist James P. Smith of the Rand Corporation and a member of the NRC 1997 panel recently testified to Congress:

> **We gain from immigration because immigrants are different from native-born Americans. If immigrants were just like the rest of us in terms of skills and education, we would only be making our economy bigger, but native-born Americans would not benefit.** [28]

How are immigrants different from natives in terms of skills and education? As shown in Table 3 (above), immigrants tend to be disproportionately represented at the high and low ends of the distribution of skills and education. Twice as high a percentage of immigrants have less than a high school diploma relative to natives. But immigrants are also 50 percent more likely to have an advanced degree. More than 40 percent of the graduates of engineering and mathematics Ph.D. programs in the United States are foreign born.[29] Immigrants compose about 12 percent of the total U.S. labor force, but an estimated one-third of the scientists and engineers in Silicon Valley are immigrants.[30]

Data on occupational attainment show the same pattern. Immigrants are overrepresented at the high and low ends of the occupational spectrum. Immigrants are somewhat more likely to be in professional, executive, and managerial positions (the highest occupational category), but also more likely to be in the bottom categories, including laborers and farm workers.[31]

New research on the skill requirements that employers will need from the work force in coming years indicates that immigrants at the high and low skill levels may be needed. A 1997 Congressional Research Service (CRS) study on the education and skill distribution of jobs in the 10-year period between 1994 and 2005 estimates that the greatest growth in employment will be at the two extremes of the education and skills spectrum.[32] According to the CRS analysis:

> **Almost 3 out of 5 jobs projected to be created through 2005 could have relatively high skill requirements (i.e., requiring postsecondary education at a minimum...) Employers are demanding a more highly educated labor force, but they are also continuing to need workers across the entire skill spectrum...**
>
> **Low skill jobs are not disappearing either in a relative or an absolute sense. Many occupations with limited educational requirements are experiencing above-average rates of job growth. Consequently, jobs that typically require a high school diploma or less could continue to account for about half of total employment through 2005.[33]**

In other words, the skill profiles of immigrants may match quite well with the nation's projected labor force needs in the near future.

Another aspect of immigrant human capital is inventiveness. For example, researchers have begun to measure the impact of the foreign born on the scientific discovery process that leads to new and more efficient ways of doing things.[34] In a 1996 study, economist Philip Peters found that between 19 and 26 percent of all patents are created by immigrants alone or by immigrants collaborating with U.S.-born co-inventors.[35] Immigrants are only 9 percent of the total population.

Immigrants' Impact on Welfare Programs

Almost all recent studies agree that the foreign born as a group make heavier use of welfare programs than natives, although their use of those assistance programs declines over time. The 1996 Census Bureau data underscore the latest trends in welfare use by immigrants. In that year 4.5 percent of native-born households received federal means-tested cash benefits versus 5.8 percent of all immigrants. Those are not dramatic differences, but the figures do not include noncash benefits, including food stamps and Medicaid. When those assistance programs are included, the disparity between immigrant and native receipt of welfare widens somewhat. Jeffrey Passel and Rebecca Clark of the Urban Institute recently estimated that in New York State 17 percent of immigrant households collected some form of welfare versus 11 percent for natives.[36]

There is evidence that more recent immigrant cohorts are using welfare at higher rates than those in the past. For example, the 1996 Census data show that only 4.6 percent of pre-1970 immigrants collected welfare but 6.5 percent of post-1980 immigrants received such benefits. One program in particular that has seen dramatically expanding rolls has been Supplemental Security Income (SSI). A recent Cato Institute report discovered a near tripling of immigrant-related SSI costs since 1982.[37] In 1982 there were 128,000 immigrants collecting SSI at a cost in 1996 dollars of less than $2 billion. In 1996 the number of immigrant recipients had risen to 989,000 at a cost of $5.1 billion.[38]

Michael Fix and Jeffrey Passel of the Urban Institute have tried to identify more precisely which immigrant populations are most likely to collect welfare assistance.[39] They find that the welfare problem is mostly confined to one subset of newcomers: refugees. Refugees tend to use more benefits because they are generally fleeing their country quickly to avoid war or persecution. They come to the United States with few assets and limited knowledge of English. Because of the trauma they have faced they also often experience emotional problems during their initial years in this country. Thus, refugees collect much higher levels of public benefits than other immigrants.

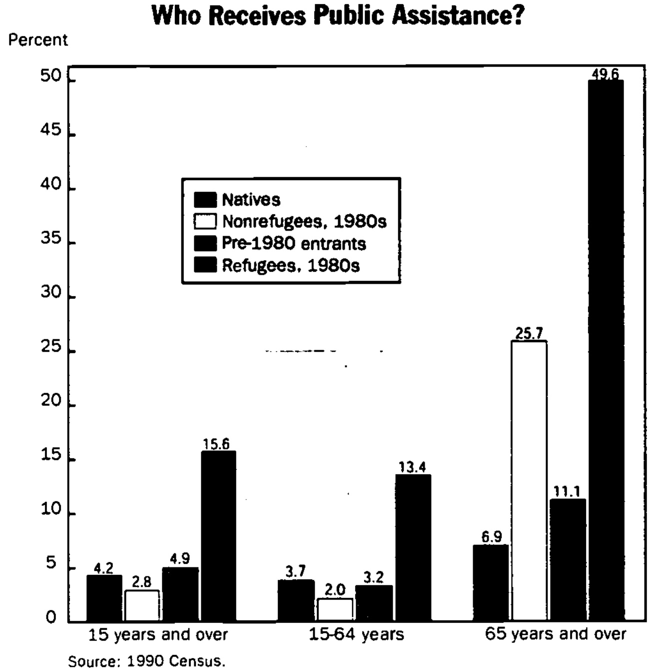
Analyzing 1990 Census data, Fix and Passel found that about 16 percent of immigrants from refugee-sending countries were on welfare, whereas less than 4 percent of all other legal immigrants collected benefits. That was a slightly lower rate than the 4.2 percent for natives (see Figure 3 below). According to Fix and Passel:

> **Except for refugees and elderly immigrants, immigrants are considerably less likely than natives to receive welfare. Among longer-term immigrants [at least ten years in the U.S.] of working age 3.2 percent are on welfare versus 3.7 percent for working-age natives.[40]**

The good news is that the economic assimilation process we described above for all immigrants is also a characteristic of refugees. Refugees tend to start out in the United States with high poverty and unemployment rates, high rates of public assistance, and very low earnings. But refugees do climb the ladder of economic progress in much the same manner as immigrants do, though at a slower rate.[41] Barry Chiswick found in a 1978 study that, as with immigrants, refugees' incomes rise steadily over time but it takes much longer for refugees to "catch up" to the national average, if they ever do, than it does for legal immigrants.[42]

Figure 3

Who Receives Public Assistance?



Source: 1990 Census.

More recent studies on refugees confirm Chiswick's hypothesis. For example, according to the U.S. government's Office of Refugee Resettlement, of Southeast Asian refugees who arrived in the United States in 1985, half were unemployed at the end of 1985 but only 20 percent were unemployed in 1986, 9 percent in 1987, and 5 percent in 1988.[43] That is, after four years in the United States the 1985 refugees' unemployment rate matched the national rate. Labor force participation and incomes also rise steadily over time for males but generally remain behind the median for U.S.-born males. Welfare use falls but remains well above the national average. This is shown in Figure 4 (see next page), taken from a 1985 study on the economic adaptation of Southeast Asian refugees.[44]

Still, the overall use of welfare by the foreign born remains stubbornly higher than overall use by natives. It can be reasonably expected that immigrant rates of welfare will fall in the future as a result of recent congressional action that eliminates eligibility for many means-tested welfare programs—including SSI, food stamps, and Medicaid—for most new noncitizen immigrants.

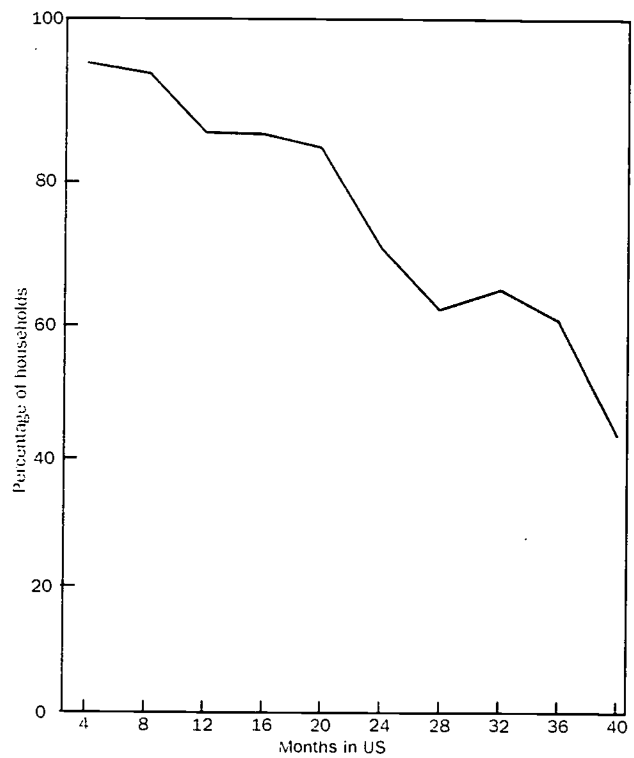
Regardless of whether that turns out to be the case, the numbers cited above for welfare use do not include the biggest income transfer programs of all—Medicare and Social Security.

Immigrants and Old-Age Programs

Social Security and Medicare are the two largest domestic government programs in America today, with a combined price tag of more than $500 billion, paid for out of a dedicated 15.3 percent payroll tax. They account for about 25 percent of the total federal budget and will soon account for more than 35 percent.[45] Supplemental Security Income, or SSI, is a third federally funded retirement income program with a price tag now over $10 billion. These programs dwarf means-tested welfare assistance programs, which generally get all of the public attention. By design, Medicare and Social Security are financed through a pay-as-you-go mechanism whereby tax payments by current workers fund the retirement and medical benefits of senior-citizen beneficiaries, current workers' children will pay their parents' generation's benefits when they retire, and so on.

Figure 4

Southeast Asian Refugee Households Receiving Cash Assistance by Length of Residence in the United States



Source: Caplan, 1985.

Recall from Table 2 that only 3.3 percent of immigrants arrive in the United States as senior citizens, whereas 12 percent of natives are of retirement age. The age composition of immigrants has dramatic fiscal consequences for financing Social Security and Medicare in the next century.

Given the financing method of federal retirement programs, immigrants are significant contributors to their continued solvency. Immigrant workers pay into the system, but they generally do not have parents who are collecting the benefits and consuming payroll tax dollars. Robert Schoeni, Georges Vernez, and Kevin McCarthy have found in a Rand Corporation study that immigrants who arrive in the United States at or near retirement age receive SSI benefits that are roughly comparable in monthly payments to Social Security.[46] But this is a relatively small cost to native-born workers simply because there are so few immigrants who fall in that category (again, less than 3.3 percent are over 65 at arrival). In 1996 about 1 million immigrants out of a total of nearly 25 million collected SSI, or about 4 percent of the total. Thus, the number of immigrants who come to the United States, never work, and collect retirement benefits from SSI is small in the context of the overall foreign-born population.

The principal fiscal benefit of immigrants is that during their working years, while they pay into the Social Security and Medicare programs, their payments are not offset in most cases by retirement benefits—from Social Security or SSI—paid out to their parents, because in most cases the parents are generally not in the United States. That creates a huge one-generation windfall to the Social Security system. Once the immigrant workers themselves retire and the children of immigrants are paying into the system to support their parents' benefits, the system is returned to its steady-state financing pattern. Figure 5 (see next page) shows how this process works to the advantage of native-born workers.

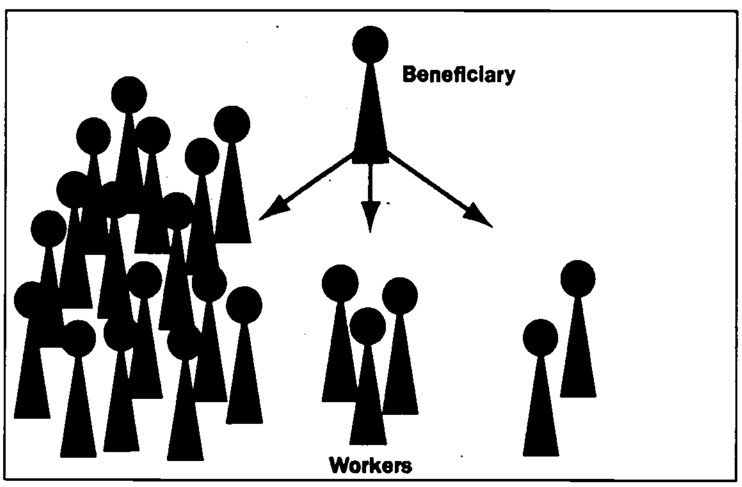
The current wave of immigrants—and future entrants as well—will make particularly large net trust fund contributions for one other reason: the impending retirement of the baby boom generation. The Social Security and Medicare systems now face a combined unfunded liability of at least $10 trillion, according to the programs' trustees reports. Who will bear the costs of this unfunded liability? All young workers will, both U.S.-born citizens and immigrants. Today's and tomorrow's immigrants help alleviate the financing crisis that will occur when the 40 million-plus baby boomers enter retirement age. (Immigration is a huge advantage that the United States has over many Asian and European rivals, who like the United States have declining birth rates and aging populations but who do not have immigrants to help smooth out the demographic bubble.)

The Social Security Administration (SSA) agrees with that assessment. In fact, according to the actuarial calculations contained in the 1998 Social Security Board of Trustees' Report, immigrants have a very positive impact on the future finances of the program. The report notes:

> **For all three periods [1998-2022, 1998-2047, and 1998-2072], the cost of the Social Security system decreases with increasing rates of net immigration.**
>
> **The cost of the system decreases with increasing rates of immigration because immigration occurs at relatively young ages, thereby increasing the numbers of covered workers earlier than the numbers of beneficiaries. Each additional group of 100,000 net immigration increases the long-range actuarial balance by about 0.06 percent of taxable payroll.[47]**

Using the sensitivity analysis contained in the trustees' report for 1998, I have calculated dollar estimates for the net long-term fiscal windfall to the program from immigration.[48] The key statistic in the calculation is the estimate by SSA that each 100,000 immigrants per year increase the long-term solvency of the system by an amount equal to 0.06 percent of taxable payroll.[49] In this calculation I estimate that immigration will average 800,000 net new entrants (immigration minus emigration) per year for the next 75 years. This assumes a continuation of the current policy of 600,000 legal entrants and 200,000 undocumented immigrants per year (net) and is consistent with SSA's demographic forecast as well.

Figure 5
Support/Benefit Ratio:
Workers per Social Security Beneficiary



Source: *1995 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (Washington: Government Printing Office. 1995). page 122.

Table 4 (see next page) shows the results over 25, 50, and 75 years. The average annual increase in the trust fund balance in 1998 dollars for each time period is $19.3 billion, $22.3 billion, and $25.8 billion, respectively. It should be noted that these figures are the average annual benefit over the period in question. The benefits tend to be small in the near term and very large in the long term for two reasons. First, there is a compounding effect over time. In the first year there are 800,000 immigrants, in the second year there are 800,000 plus 800,000 immigrants, and so on. Second, the immigrants have children and over time their children pay into the system as well. Table 4 also shows that the total net asset (taxes paid over benefits collected) to the Social Security system in today's dollars is nearly $500 billion from 1998 to 2022 and nearly $2.0 trillion through 2072.

Here is another way to think about the implications of the numbers. If immigration were entirely ended today, the unfunded liability of the Social Security system from 1998 to 2022 would be roughly a half-trillion dollars higher than with continued current levels of immigration. Through 2072 the long-term unfunded liability of the system would increase by $2 trillion. Increasing legal immigration levels by 200,000 entrants per year would reduce the current unfunded liability of the system by nearly $1.5 trillion over 50 years and roughly $2.4 trillion over 75 years (in 1998 dollars). Continuing immigration is clearly an integral part of any solution to the long-term financing crisis of Social Security.

Using a slightly different methodology, the NRC panel of experts found that in per capita terms immigrants and their children pay about $700 more in payroll taxes than they receive in Social Security retirement benefits each year.[50] The native population, by contrast, approximately breaks even. It is worth noting that neither of these dollar estimates (neither Cato's nor the NRC's) includes the impact of immigrants on the Medicare program.

Some analysts have observed that because of the positive long-run impact of immigrants on Social Security funds, immigration levels are currently below the level that is in the nation's economic interest. One of those urging increased immigration quotas is Peter Francese, president of American Demographics. Francese argues:

Table 4
Impact of Immigration on Social Security Finances (Billions of 1998 Dollars)

	25 Years (1998-2022)	50 Years (1991-2040)	75 Years (1991-2065)
800,000 Net Immigration Per Year			
Average Annual Increase in Net Trust Fund Balance	$19.3	$22.3	$25.8
Total Increase in Net Trust Fund Balance	$484	$1,117	$1,934
1,000,000 Net Immigration Per Year			
Average Annual Increase in Net Trust Fund Balance	$24.2	$27.9	$32.2
Total Increase in Net Trust Fund Balance	$604	$1,396	$2,418

Source: Author's calculations based on Social Security Administration, "Federal Old Age and Survivors Insurance and Disability Insurance Trust Funds," Board of Trustees' Report (Washington: Government Printing Office), 1998.

> **There are powerful demographic factors at work in the U.S. that virtually mandate that federal policy be changed to permit more immigration than we have now. The rapid increase in the number of very elderly people, combined with the declining numbers of young adults and a record low population growth will put the nation in a demographic vice.**
>
> **Paying for income security and medical needs of the elderly while at the same time improving the educational opportunities and well-being of children will squeeze workers in the grip of higher federal payroll taxes, state taxes, and property taxes.**
>
> **We cannot wait twenty years to see what will happen when the baby boomers retire and ask what happened to the Social Security trust fund.** [51]

The demographic vise that Francese was referring to was the falling ratio of workers to retirees. Even if current levels of immigration continue, the ratio will fall from three workers to one retiree today to two to one by 2030 (see Figure 5). Without immigrants that ratio could fall to closer to 1.8 workers for every retiree, thus creating a crushing tax burden on tomorrow's work force.

A final word is in order regarding Hispanic immigrants. The Hispanic community in the United States will be sharing a large part of the Social Security and Medicare financing burden, according to a recent Heritage Foundation report on Latinos and Social Security.[52] According to the Heritage report, Hispanics represented 8 percent of the U.S. labor force in 1990 and, because of immigration and high birth rates, are projected to make up 21 percent of the U.S. work force in 2050. Under the current tax and Social Security benefit schedules, the Social Security system will have its peak deficit in 2029, when most of the 76 million baby boomers will have retired. The Heritage Foundation study concluded:

> **Without the Hispanic population, the entire Social Security pay-as-you go system with current workers paying for the benefits for current retirees could founder.**[53]

How Much Do Immigrants Pay in Total Taxes?

Now we address the critical issue of how much total taxes immigrants pay each year.

The tax payments of immigrants depend principally on their income levels. We have to determine the aggregate nonwelfare income level of immigrant households. The latest U.S. Census data reveal that total immigrant income in 1995 was $330 billion. Updating that figure to 1997 (adjusting for increased total immigrant households in the United States and the two-year growth in average incomes), I estimate total immigrant income of $390 billion.

Table 5
Estimated Total Taxes Paid Directly by Immigrants, 1997

1995 Income of Immigrant Households	$330 billion
Total Immigrant Income Updated for 1997	$390 billion
Immigrant Household Average Tax Rate	34%
1997 Taxes Paid by Immigrants	$133 billion

Source: Author's calculation based on data from 1996 U.S. Census Bureau and Tax Foundation, 1998.

The Tax Foundation provides estimates for the share of income for median-income households that is paid in all federal, state, and local taxes.[54] Their estimate is 38 percent. The Census data from 1995 tell us that median income for the typical immigrant household was about 20 percent below that of all U.S. households. Because the U.S. tax system overall is slightly progressive, I estimate that the tax rate for immigrant households is roughly 34 percent. This implies total tax payments by immigrants in 1997 of $390 billion x 34%, or roughly $132.6 billion. The calculations are shown in Table 5 (left).

What is the division of this tax payment between federal and state/local collections? In 1995 roughly two-thirds of total taxes paid went to the federal government and the remaining third to states and localities.[55] If that is still true for immigrant households today, and that percentage is similar to the breakdown for natives, then it implies that $89 billion is paid by immigrants to the federal government and about $44 billion to state and local governments each year.

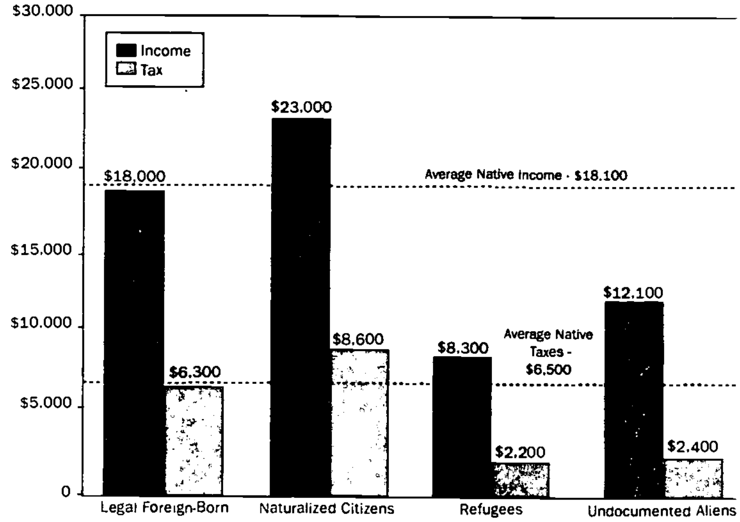
The tax burden is not spread evenly among all immigrant households. Immigrants and native households pay widely varying amounts of tax. An immigrant household's tax payments increase over time with earnings, labor force participation, and economic success. One factor that appears to be positively associated with taxes paid is whether immigrants become naturalized citizens. Drawing upon data from the U.S. Census Bureau Current Population Survey, the CRS recently found that families with an adult, foreign-born, naturalized citizen actually have higher adjusted gross incomes—averaging $40,502—than families with U.S.-born citizens only ($35,249).[56] The immigrants' taxable incomes average $32,585, compared with $27,076 for families with all native-born members. The federal taxes paid by families with a naturalized citizen average $6,580 per year. compared with $5,070 for U.S.-born-only families.

Families with naturalized citizens thus, contribute more than their share of U.S. federal income tax. Although they make up approximately 4.5 percent of all U.S. families, their share of the total federal tax liability is 5.9 percent.

A 1998 Urban Institute study by Jeffrey S. Passel and Rebecca Clark examining earnings and taxes of immigrants living in New York finds that immigrant status plays a large role in measurements of fiscal impact.[57] Figure 6 (right) shows that tax payments were slightly lower among all legal immigrants than among all natives ($6,500 versus $6,200). But naturalized citizens had higher average earnings and tax payments than natives, whereas refugees had substantially lower earnings and tax liabilities. According to the authors:

> **With the exception of refugees and undocumented aliens, immigrants in New York pay roughly the same percentage of their income in taxes as natives do.[58]**

Figure 6
Taxes and Income by Nativity/Immigrant Status



Source: "Immigrants in New York", Passel and Clark.

Taxes Paid by Immigrant-Owned Businesses

The $133 billion calculation of taxes paid by immigrants derived in the previous section is an unrealistically low estimate. The analysis is incomplete because it fails to account for the tax payments made by immigrant businesses. Businesses generate streams of tax payments separate from the income stream paid to the owner. Businesses pay state, local, and federal business taxes (and corporate taxes, if they are a corporation), employment taxes, sales taxes, commercial property taxes, and a myriad of fees. As employers, businesses also make it possible for workers to earn incomes, which also generate tax revenues. In inner cities, for example, immigrant-owned businesses are often the lifeblood of low-income areas.

Recent studies suggest that immigrants are highly entrepreneurial:

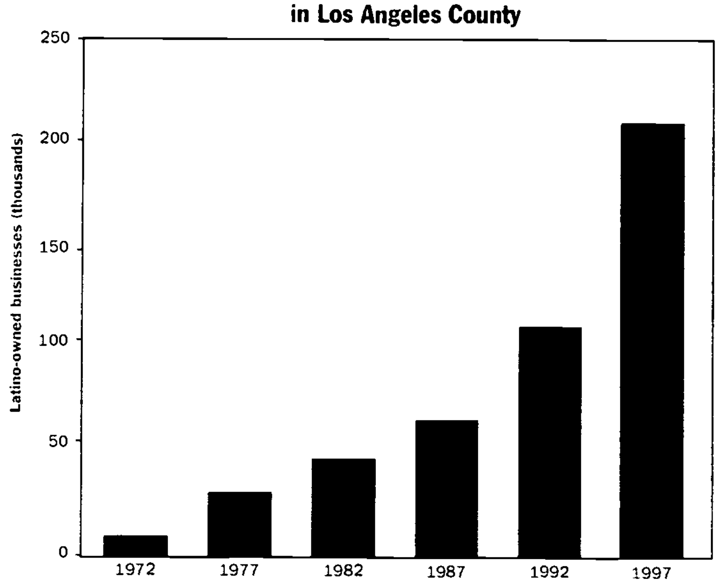
- Historically, immigrants have tended to be somewhat more likely to start a new business than native-born workers. In 1990 7.2 percent of immigrants owned businesses versus 7.0 percent for natives.[59]

- Examining the business creation process in the 1970s in more than 200 metropolitan areas. sociologists Ivan Light and Angel A. Sanchez estimated that almost half of all inner-city firms were immigrant-owned.[60]

- Forbes magazine reported in 1996 that 23 of the 200 Best Small Companies award recipients were immigrant-run companies.[61]

- From 1972 to 1997 the number of Latino-owned businesses in Los Angeles County increased more than eight fold—from 25,000 to just over 200,000 (see Figure 7 right).[62] Not all of these businesses were formed by first-generation immigrants. but many of them were.

Figure 7
Growth in Latino-Owned Businesses in Los Angeles County



Source: The Economist. 5/2/98.

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These findings are consistent with the general supposition that immigrants are self-selected risk takers. Immigrant entrepreneurs increase capital investment, foster technical progress, and create new employment opportunities for American-born workers.

Many newcomers from Mexico, Taiwan, Lebanon, Iran, North Africa, Israel, Korea, and Hong Kong are owners of American businesses. The U.S. has remained globally competitive in strategic high-tech industries in part because of the innovative thrust of immigrant-run companies.[63] It is the diversity in ownership and employment that often gives U.S. companies a global marketing edge. Applied Materials, Inc., for example, is a $4 billion chip equipment maker that boasts top executives from Taiwan, Israel, Argentina, and India. Foreign managers of overseas units helped raise Applied's global market share from 6 percent in 1988 to 22 percent today.

Table 6

Major High-Tech Companies Started by Immigrants*

Company/Consortium	No. of Employees in US	Annual Revenues
Intel	29,000	$11.5 billion
Sun Microsystems	11,000	$6.0 billion
Computer Associates	9,000	$2.6 billion
Solectron	4,545	$1.5 billion
Lam Research	3,600	$811 million
LSI Logic	2,600	$902 million
AST Computer	2,248	$2.4 billion
Wang Laboratories	2,000	$1.0 billion
Amtel	2,000	$600 million
Cypress Semiconductor	1,500	$600 million
Total	**$67,493**	**$27,913 billion**

*Note: At least one of the company founders was foreign born.

Source: Stuart Anderson, "Employment-Based Immigration and High Technology," (Washington: Empower America, 1996).

In Silicon Valley alone, hundreds of millions of dollars in foreign venture capital are now pouring into the local economy. More than 100,000 technically savvy immigrants have kept that area, and the nation, at the forefront of global technology.

Most immigrant businesses—like most businesses started by American-born entrepreneurs—are not highly successful or large employers. But many of the largest and most profitable businesses in America today were started by immigrants.[64] Immigrants who entered the United States as refugees, economic immigrants, or family-sponsored immigrants are now at the helm of some of the nation's leading and rapidly growing technology businesses: Hungarian-born Andrew S. Grove recently retired as Chairman and CEO of Intel; Algerian-born Eric Benhamou heads 3Com Corporation; Iranian-born brothers Farzad and Farid Dibachi founded and head Diba, Inc.; and Ugandan-born Ajay Shah is the chief executive of Smart Modules Technologies.

Table 6 shows the income and employment generated by 10 highly successful immigrant firms. Those 10 firms alone generated $28 billion in revenues and employed 67,000 American workers in 1997.[65] The tax revenues paid directly by the companies and by their employees in 1996 amounted to at least $3 billion.

No one has estimated the total taxes generated from all immigrant businesses. To estimate the total taxes paid, we must first estimate the total number of immigrant-owned businesses. The 1980 and 1990 Censuses indicate that roughly 1 of 12 adult immigrants is self-employed or a business owner. This suggests that of the 14.3 million immigrant workers in 1996, roughly 1.2 million are self-employed or business owners.

Again, immigrant businesses range in size from multi-billion-dollar enterprises like Intel to small corner grocery stores. The National Federation of Independent Business (NFIB) has calculated average taxes paid by businesses in America for 1994.[66] NFIB finds that the average proprietorship (employing one person and grossing about $100,000 a year) paid $12,891 in 1994 in all federal, state, and local taxes. The average small corporation (a C corporation grossing $4.5 million and employing 15 people) paid $153,826 in taxes.

To arrive at some "back-of-the-envelope" calculations of taxes paid by immigrant businesses, I assume that immigrant firms on average pay as much tax as businesses founded by natives. I also assume that 95 percent of immigrant businesses fall in the sole-proprietorship category and that 5 percent are C corporations with roughly 15 employees. This implies that there are 1.14 million immigrant sole proprietors who paid a total tax bill of $14.7 billion in taxes in 1994 and that there are 60,000 immigrant-owned or -founded C corporations that paid $9.2 billion in taxes in that year. The total is $23.9 billion. Updated for inflation and the growth of profits since 1994, the estimated 1997 tax liability of immigrant-owned businesses is $29.2 billion.

Adding this figure to the calculation for taxes paid by immigrant workers, we arrive at a total tax payment by immigrants in 1998 of roughly $162 billion.

If we use precisely the same methodology to estimate tax payments by natives in 1997, we find that overall tax collections came to $1.95 trillion.[67] This implies that roughly 8.3% of all taxes collected in 1997 come from immigrants. That is slightly less than their share of the total population (9 percent). But as we have seen in preceding sections, a large percentage of those taxes finance retirement benefits for seniors and schooling costs for children, both of which immigrants do not make heavy use of because of their age profile.

Do Immigrants Pay Their Own Way?

One of the most important public finance issues relating to immigration is whether the newcomers pay their own way. That is to say: Do immigrants' taxes over their lifetimes cover the costs of the public services they use?

The first major study on that topic was conducted by the late economist Julian Simon at the University of Maryland in 1981.[68] Simon used Census Bureau data from 1975 to calculate the total cost of public services used by immigrants for various lengths of time in the United States to build a lifetime benefit profile for immigrants. It assumed, for instance, that immigrants who entered the United States in 1972 were typical of immigrants after three years in the country, immigrants who entered in 1971 were typical of immigrants after four years, and so on. The services examined included health care, social security, unemployment insurance, education, welfare, and an allowance for other government programs used, such as the infrastructure. Simon then used the same procedure of building a lifetime profile of taxes paid by immigrants. He examined the earnings of immigrants over their working years and used those data to deduce their tax payments, which were assumed to be roughly proportional to income.

Simon created an immigrant balance sheet by placing the taxes paid and public services used side by side to assess the value of an immigrant as one would a physical investment:

> **In every year following entry (until the immigrants themselves retire, at which time their children are supporting them through the Social Security and Medicare system) immigrants benefit natives through the public coffers. And a calculation of the net present value of the stream of difference shows that immigrants are a remarkably good investment at any conceivable rate of discount.[69]**

This conclusion was very controversial when originally published, but in recent years a number of prominent scholars have adopted Simon's lifetime analysis procedure with more recent data and have come to similar findings. Those studies differ on the magnitude of the benefit to natives but agree that immigrants are a fiscal benefit, not a burden. As an Urban Institute survey of the literature concluded in 1994:

> **Most national studies encompassing all levels of government suggest that immigrants do not fiscally burden the native population.[70]**

Examining the impact of immigrants on government coffers, the NRC found that, over their lifetimes, immigrants and their children will pay an estimated $80,000 more in taxes—to all levels of government combined—than they will receive in government benefits.[71] According to the NRC study, the net payment of immigrants to the federal government is $105,000. That is, over their lifetimes, immigrants and their children pay $105,000 more in taxes to the federal government than they receive in benefits from it. In part, that is because the largest tax bill for most Americans comes from personal income and Social Security taxes, and the bulk of those receipts go to the federal government.

Economist Ronald Lee of the University of California at Berkeley and a member of the NRC panel explained the findings to Congress this way:

> **Most immigrants arrive at young working ages, with their education already paid for. At most ages, the total benefits immigrants receive actually cost less than those received by natives. Immigrants' taxes help pay for government activities such as defense for which they impose no additional costs. Their taxes help to service the national debt. And immigrants will help pay for the baby boomers' retirement. <u>These factors add up to a net positive impact on government budgets.</u>** [72]

While the net contribution of immigrants to the federal government is shared among all U.S. taxpayers, the situation is different at the state and local levels, where some of the most expensive government services—including educational and medical services—are distributed. The impact of immigration varies by state. States and localities with large immigrant populations, such as Los Angeles, Houston, and San Diego, incur more cost than they receive in tax revenues from immigrants. The NRC estimates that, overall, immigrants and their children cost state and local governments $25,000 more than those governments receive in taxes.[73]

The NRC confirms that the fiscal benefits of immigrants are in part a function of the age profile, as discussed above. Immigrants arriving between their early teens and their late twenties have the highest positive fiscal impacts. Immigrants arriving in their mid-sixties have large negative impacts. However, only 3.3 percent of immigrants are over 65 years old when they arrive in the United States.

The NRC places special emphasis on one of the most crucial and underappreciated benefits of immigrants: their children. The NRC concludes that part of the equation that leads to such a large positive net tax payment from immigrants is that their children typically are highly motivated and upwardly mobile. In fact, the NRC report says that the children of immigrants with less than a high-school education tend to go considerably further in their education than do the children of less educated natives.

Studies concluding that immigrants have a favorable net fiscal impact contradict earlier studies by Donald Huddle, who found a net annual cost of $40 billion to $50 billion for immigrant households.[74] Huddle's 1992 study used per capita tax estimates for Los Angeles County from the county's Internal Services Department. He then extrapolated from those data as the basis for making national estimates of taxes paid by immigrants and public services used. Huddle finds that immigrants impose net fiscal costs of $50.9 billion in services used and $11.9 billion in job displacement of native workers, but that the immigrants pay only $20.2 billion in taxes.

Among the methodological flaws in Huddle's work was the exclusion from his analysis of the major taxes immigrants pay—including, most critically, FICA payroll taxes. When the Urban Institute's Jeffrey Passel used the Huddle methodology but corrected the methodological errors, he came to exactly the reverse conclusion:

Huddle estimates are so far from the actual costs and revenues that they give a completely misleading picture of the impact of immigrants. Huddle understates revenues from immigrants by at least $50 billion, overstates social service costs by $10 billion, and erroneously estimates displacement costs at $12 billion. The net effect of the three components is an overstatement of <u>net</u> costs by more than $70 billion. Within this rather narrow range of calculus of revenues and social service costs, <u>immigrants may well generate a surplus of $25 – 30 billion, rather than a burden of $42 billion.</u>[75]

On balance, the preponderance of the economic evidence leads to the conclusion that legal immigrants are a good deal for the United States; their taxes cover their public costs. That was the overall conclusion of the 1985 Economic Report of the President, which included an exhaustive investigation into the economic effects of immigrants. Its findings on the fiscal impact of immigrants summarize well the overall conclusions of this section on the fiscal impact of immigrants:

On the whole, international migrants appear to pay their own way from a public finance standpoint. Most come to the United States to work, and government benefits do not appear to be a major attraction. Some immigrants arrive with fairly high educational levels, and their training imposes no substantial costs on the public. Their rising levels of income produce a rising stream of tax payments to all levels of government. Their initial dependence on welfare benefits is usually limited, and they finance their participation in Social Security retirement benefits with years of contributions.[76]

Does the Analysis Hold for New Immigrants?

As mentioned above, some of America's most prominent immigration scholars have uncovered troubling evidence of declining quality in America's "new immigrants." Principal among these researchers is economist George Borjas. In his 1990 book <u>Friends or Strangers: The Impact of Immigrants on the U.S. Economy</u>, Borjas declared:

The skill composition of the immigrant flow entering the United States has deteriorated significantly in the past two or three decades; this decay in immigration skills justifies a reassessment of the economic benefits and costs of immigration.[77]

In his book and in subsequent work, Borjas supplies some compelling evidence to substantiate his claims. Using Decennial Census Bureau data, he shows that from 1950 through 1990 the level of schooling, the number of hours worked, the labor force participation rate, and the earnings of immigrants have steadily declined relative to those of U.S.-born workers.[78] The decline means that the average new immigrant earns at least $5,000 per year less than the average immigrant in 1960. According to Borjas' calculations, if immigrant skills had not fallen total income in the United States in 1980 would have been $8.5 billion higher—or about $20 billion today.

It is important first to note that the decline in skills and education reported by Borjas is <u>relative</u> to the level of skills and education of U.S.-born workers. For example, there has been an improvement in immigrant quality over time, but that improvement simply has not kept pace with the improvements in education and skills of U.S.-born workers. That is most evident in educational attainment. Sociologists Alejandro Portes and Ruben Rumbaut have compared educational levels of immigrants over time and have found steady improvements.[79] According to Portes and Rumbaut:

The view that the educational level of immigration has been declining over time does not find support in the data, either in terms of general averages or when disaggregated by national origins.[80]

Table 7
Educational Attainment of New Versus Old Immigrants, 1996

	Immigrants, by Year of Entry			
	Before 1970	1970-9	1980-9	1990-6
High School Graduate	69%	64%	62%	63%
Bachelors Degree	12%	15%	16%	17%
Graduate Degree	8%	8%	8%	12%

Source: U.S. Bureau of the Census, Current Population Survey, "Selected Characteristics of Natives and the Foreign-Born Population, 1996," Table B, P20-494.

A 1993 study by researchers Edward Funkhouser and Stephen Trejo of the University of California at Santa Barbara finds a marked improvement in education levels for the immigrants who arrived between 1987 and 1989.[81] For example in 1979, the percentage of recently arrived immigrants who had less than 8 years of schooling was 33 percent; for immigrants who arrived in the late 1980s it was down to 23 percent.[82] More important, the percentage of recent immigrants with a college degree increased from 19 percent to 26 percent between 1979 and 1989.

The 1996 Census data confirm the trend of more highly educated immigrants in each succeeding cohort, as shown in Table 7 (see left).

The 1996 analysis by the U.S. Bureau of the Census also confirms that recent immigrants are still rising on the economic ladder of success. It found that the economic assimilation rate is highly evident for a range of economic variables that are measures of economic success. The 1970s immigrants have virtually caught up with natives in most categories, as shown in Table 8.

Here is the conclusion of the Census Bureau analysis:

Table 8
Economic Assimilation of Recent Immigrant Cohorts, 1996

		Immigrants by Year of Entry			
	Natives	Before 1970	1970-9	1980-9	1990-6
Unemployed	4%	2%	5%	5%	7%
Income in 1995 $50,000 or more	10%	11%	9%	5%	3%
Not in Poverty	87%	90%	83%	76%	67%
Homeownership	69%	76%	61%	42%	22%

Source: U.S. Bureau of the Census, Current Population Survey, "Selected Characteristics of Natives and the Foreign-Born Population," 1996, Table B, P20-494.

Recent arrivals (those who came to this country during the 1990s) were more likely to be in poverty, to have lower incomes, and have higher unemployment rates than the native born. However, economic circumstances improve with length of residence. Poverty and unemployment rates decline and median incomes generally rise. Those who arrived during the 1970s are doing as well as natives in terms of income.

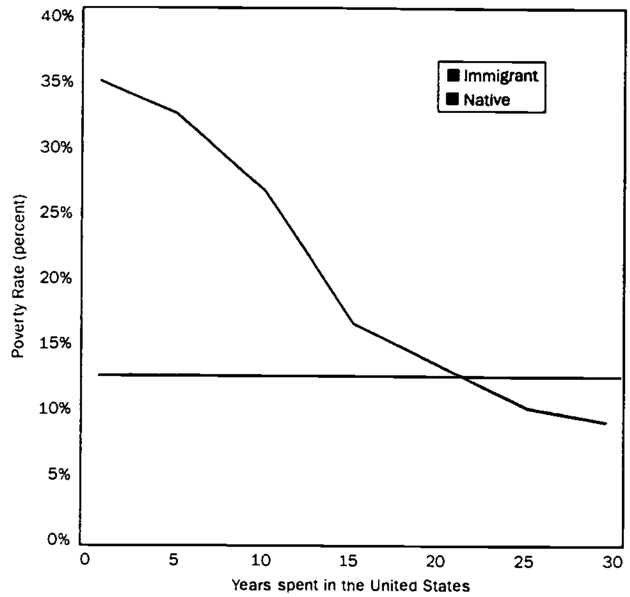
Foreign-born people who came to the U.S. during the 1970s had median personal incomes in 1995 no different than natives, about $17,000. Foreign born people who came prior to 1970 were less likely than natives to be in poverty—10 percent compared to 13 percent.[83] (see Figure 8 next page).

Subsequent studies have found that rapid economic assimilation continues to be the norm for recent immigrants, though the rate of assimilation varies by country of origin. A 1996 Rand study finds that European and Asian immigrants generally overtake natives in wages but that Mexicans start very low and remain low (see Table 9 next page).[84] On average, first-generation

Mexicans do not "catch up" to U.S. natives. According to authors Robert F. Schoeni, Kevin McCarthy, and Georges Vernez:

> **We find that Japanese, Korean, and Chinese immigrants enter with wages much lower than those of native-born workers, but that their earnings increase rapidly. Within 10 to 15 years, their wages reach parity with those of native-born workers. Europeans enter with wages similar to those of natives and continue to earn comparable wages over their working lives. Mexicans, on the other hand, enter with very low wages and experience a persistent wage gap.[85]**

Figure 8
Poverty Rates for Immigrants Over Time



Source: U.S. Census Bureau. 1996.

But there appears to be a major problem with that conclusion as it pertains to Mexicans. As discussed in a previous section, one defect of Census data is that the more recent censuses include both illegal and legal immigrants and do not distinguish between the two. This is particularly problematic in making assessments about the economic progress of legal immigrants from Mexico because a large segment of the undocumented immigrant population is Mexican. The data used by the researchers at Rand lump legal and illegal Mexican immigrants together. That distortion clearly leads toward a conclusion that Mexicans are not making progress in America.

Elaine Sorenson and Maria Enchautegui of the Urban Institute came to a more optimistic assessment of the economic progress of recent immigrants. They found that immigrant quality in the 1980s, rather than declining as Borjas asserts, actually improved.[86] For example, the immigrants arriving between 1985 and 1989 had higher education levels than the 1970s cohort of immigrants. Sorenson insists:

> **The level of education of recent immigrants has definitely increased over the last 10 years.[87]**

The average education and earnings data that are often cited to suggest a dramatic decline in immigrant quality camouflage a critical point about recent immigrants. Immigrants tend to be bimodal in skills and education. In other words, a disproportionate percentage of immigrants have low skills and education in comparison with U.S.-born workers. But almost an equally disproportionate share of recent immigrants are highly skilled and educated. For example, according to Sorenson and Enchautegui, more than one-quarter of immigrants who arrived in the 1985 to 1989 period were college graduates—a higher percentage of college graduates than among adult workers born in the United States.

Table 9
Immigrant Assimilation by Country of Origin: Immigrant Earnings as Percentage of Native-Born Earnings

Country	Period of Entry	1970	1980	1990
Mexico	1965-1969	63%	61%	57%
	1975-1979	—	52	50
Europe	1965-1969	94	101	105
	1975-1979	—	90	110
Japan. Korea.	1965-1969	74	120	141
China	1975-1979	—	78	115

Note: Relative median weekly earnings of immigrants who arrived in the US between ages 25 and 34.

Source: Rand Corp. Santa Monica, CA, 1996.

Another reason to suspect that the problem of a decline in immigrant quality has been overstated is that the reduction in initial skill levels and

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earnings appears to be offset by other positive attributes—resourcefulness, adaptability, strong ethnic community bonds, and entrepreneurship—of recent arrivals. Borjas concludes that the quality of recent immigrants has fallen based on factors such as their earnings and education at the time of their arrival. However, a recent study by Robert LaLonde and Robert Topel of the University of Chicago finds that this analysis ignores the economic assimilation rate of immigrants, as measured by earnings growth after they arrive in the United States.[88] This point is important enough to warrant elaboration. According to LaLonde and Topel:

> **Since immigrants assimilate with time in the United States, the decline in new immigrants' initial earnings capacity overstates the long term decline in immigrant quality. Further, those groups with the largest initial earnings disadvantages assimilate the most.**
>
> **Thus, an increase in the shares of Asians and Mexicans among new immigrants reduces new immigrants' relative earnings, but increases the average rate of assimilation...**
>
> **Europeans who arrived between 1965 and 1969 experienced no relative earnings growth at all during the 1970s, but they also started from parity in 1969. By comparison, Asians and Mexicans experienced relative earnings growth of 24 and 20 percent over the decade, respectively. Since Asians and Mexicans accounted for vastly larger proportions of new immigrants in the 1970s and 1980s, the rate of convergence between immigrant and native earnings will be correspondingly larger than in the past.[89]**

LaLonde and Topel suggest that after about ten years in the United States almost all of the earnings and educational disadvantage of the more recent immigrants relative to the earlier immigrants disappears. They conclude:

> **We think that fears about declining immigrant quality have been exaggerated.[90]**

Economists Harriet Orcutt Duleep and Mark C. Regrets at the Urban Institute independently have come to the same conclusion.[91] They find that among recent immigrants (those who entered in the 1970s):

> **There is a systematic inverse relationship between initial earnings and the growth rate in earnings.... The increased rate of growth [in earnings] greatly ameliorates the effect of lower entry wages on the lifetime earnings of immigrants.[92]**

One reason that more recent immigrants have lower initial earnings than those of the past but then experience a more rapid path of economic advancement, is that new immigrants tend to originate from Asia and Central America, which means that a smaller percentage than in the past have English-language skills at the time of entry.[93] This would depress initial earnings but accelerate earnings once English skills are attained.

The argument of declining quality is most directly refuted when one examines the human capital characteristics of recent ethnic groups that have immigrated to the United States. For example, what is most new about America's "new immigrants" is that they are Asian. The major shift in national origin of immigrants in recent times is that Asian immigration has expanded from 10 percent to nearly half the total. The 1990 Census reveals that, in large part because of immigration, Asians are the fastest growing minority in America; their population grew by 80 percent in the 1980s alone. Yet Asians have higher average earnings than natives; they have higher average levels of education; and they are more likely to obtain advanced degrees.[94]

In short, the social assimilation and economic progress of the Asians who have immigrated to the United States over the past three decades have been an astounding American success story.[95] That is the conclusion of Joel Kotkin, whose 1992 book Tribes is a study of the economic assimilation and the traits of various ethnic groups in America. Kotkin concludes:

> **Taken together, Asians constitute arguably the most talented, commercially-oriented large group since the massive influx of Jews in the early part of the twentieth century.[96]**

The most recent study on the subject of the "new immigrants" is perhaps the most reassuring of all. In a just-released 1998 study, Jeffrey Passel and Rebecca Clark of the Urban Institute compared earnings and tax payments of U.S.-born citizens in New York versus those of the foreign born.[97] They found that after 15 years in the United States, legal immigrants in New York have slightly higher earnings ($18,800) than do natives ($18,100). Legal immigrants make up 5.4 percent of the total New York population and pay 15.2 percent of total taxes in the state—a total of $17.8 billion. Passel and Clark conclude that the economic outlook for recent immigrants looks positive:

> **We observed fantastic income growth among legal immigrants during their first 10 or 15 years in the country... Among legal immigrants in New York, those who have been in the country for at least 15 years have higher average incomes than natives.[98]**

It would appear, then, that not much has changed in the overall picture of economic assimilation patterns first described in the pioneering work of Barry Chiswick published 20 years ago, depicted in Figure 1.

Two final points need to be emphasized about the quality of recent immigrants vis-à-vis the Europeans who arrived during earlier decades. First, even if we accept the proposition that there has been some undesirable deterioration in immigrant quality for some ethnic groups—and what appears to be driving down the average skill and education levels is that Mexicans today are coming with less human capital than earlier—it would be wrong to conclude that those immigrants are an economic burden. There is no evidence that the new immigrants are not a fiscal benefit to the United States; there is only some evidence that they are less of a fiscal benefit than earlier arrivals.[99]

Second, although there is some cause for concern about the declining education and skill levels of immigrants, the new immigrants have other positive characteristics. Those include very high levels of entrepreneurship and high rates of economic assimilation that appear to at least partially offset whatever initial skills and earnings disadvantages exist. Their eventual success in the marketplace suggests that recent immigrants are strong contributors to the economy and the fiscal solvency of the public sector.

The State and Local Fiscal Impact of Immigrants

For many states and large cities, the issue of funding services to immigrants is of growing concern. More than half of all immigrants live in just six states: California, Florida, Texas, New York, Illinois, and Arizona. More than 20 percent of the population of many large cities—including Los Angeles, New York, Houston, Chicago, and Miami—is foreign born. The NRC study found that each new immigrant costs these state and local governments about $25,000 over time. Politicians in states like Florida and California have complained that their residents are paying the tab for the large influx of immigrants. Some researchers have called for federal impact aid to states and cities that have large immigrant populations.[100]

The problem for localities is that at least half of the government services used by immigrants are provided at the local level, but, according to the 1998 Urban Institute study, about 70 cents of every dollar in taxes paid by immigrants go to the federal government (in the form of income and social security taxes mostly) and less than 15 percent is paid to local governments.[101]

The 1997 Rand study on immigrants in California identified that funding mismatch as a major problem for such immigrant-receiving states. It found that immigrants are a net fiscal burden on the residents of California but a net fiscal benefit to the residents of other states. The costs to Californians were estimated to be rising because of more lower skilled immigrants (mostly undocumented immigrants) coming to the Golden State.

It is critical to emphasize that the fiscal deficit problem created by immigrants and imposed on receiving states and cities does not mean that those areas are economically disadvantaged by the immigrants' presence. Immigrants bring benefits to a community that exceed the taxes they pay. On a local scale, immigrants, as entrepreneurs, workers, and consumers, provide life support to cities beleaguered by the flight of native-born residents and businesses.[102]

For example, Urban Institute researchers Thomas Muller and Thomas Espenshade found that even though California immigrants use more local services than they pay in local taxes, they are still a significant economic asset to the California communities in which they reside. Muller and Espenshade concluded by saying:

> **The over-all economic benefits accruing to the average Los Angeles household from the presence of Mexican immigrants probably outweigh the economic costs of fiscal deficits.[103]**

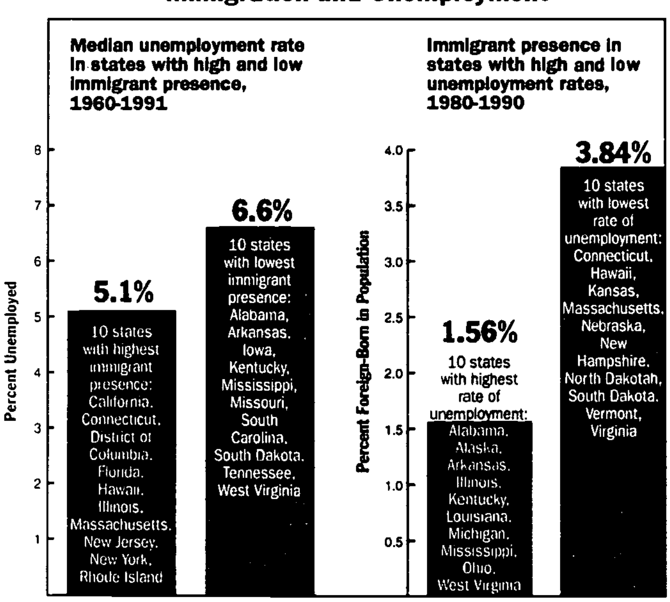
In a study published by the Hoover Institute in 1996, I reported that immigrants may be a source of economic growth and revitalization to inner cities.[104] Over the period 1965 to 1990, cities with large immigrant populations were found to be in far better economic condition—as measured by income levels, poverty rates, crime rates, job creation, and other such factors—than cities with small immigrant populations:

> **The data should dispel any myth that immigration is a cause of urban decline. In the ten fastest growing cities—including San Diego, Anaheim, Las Vegas, and San Jose—the foreign born constitute 17.9 percent of the resident population. In the ten slowest growing cities—including Detroit, Cleveland, Philadelphia, Buffalo, and St. Louis—the foreign born constitute 6.8 percent of the population. In other words, high-growth cities have about twice the rate of immigration as low-growth cities.[105]**

Moreover, economists Lowell Gallaway and Richard Vedder of Ohio University and I found in 1994 that states with large immigrant populations had better economic climates than states with small immigrant populations.[106]

Figure 9

The Non-relationship Between Immigration and Unemployment



Source: Vedder. Gallaway, and Moore. 1994.

Immigrants do not lead to higher unemployment rates for US workers. largely because they create jobs with their businesses and consumer spending.

We found, for example, that the unemployment rates in the states with the largest populations of immigrants were 1.5 percentage points lower than in the states with small immigrant populations. High-unemployment states in the 1980s had only half the percentage of immigrants as a share of their population as did low-unemployment states (see Figure 9 previous page). We conclude:

> **High immigrant states have historically outperformed low immigrant states in job creation and income growth. There is also no evidence that immigrants add to the unemployment rate in states. In fact, the evidence suggests the opposite relationship.[107]**

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Conclusions

Taken together, the fiscal studies on immigration and the new fiscal estimates derived in this study indicate that as immigrants have become integrated into American society, their economic participation has increasingly become a vital part of America's very strong economic growth in recent decades. An individual's use of public benefits and services at a moment in time is but a small fragment of America's experience with immigration.

What is evident from these studies is that immigrants, as a taxpaying population, provide a critical source of federal and state revenue. Their work-force participation and tax payments will be increasingly relied on as our aging native work force moves toward retirement. As a result of immigration, the majority of Americans are enjoying a healthier economy and are paying billions of dollars less in taxes than they would each year without immigrants.

The major findings discussed in this report are as follows:

■ The National Research Council of the National Academy of Sciences found in its comprehensive 1997 study that immigrants benefit the U.S. economy overall by adding as much as $10 billion each year.

■ The direct taxes paid each year by immigrants are roughly $133 billion as of 1997. If the taxes paid by immigrant businesses are added to the calculation, the taxes paid due to immigrants would be at least $162 billion.

■ The Social Security and Medicare systems will be increasingly reliant on the payroll tax payments of young immigrant workers. The present value surplus of immigrant payments to the Social Security system over the benefits received is about $500 billion (in today's dollars) over the next 25 years and nearly $2.0 trillion over the next 75 years. Payments of benefits to baby boomers when they retire are dependent on a continued stream of immigrant workers to support the health care and retirement systems for senior citizens.

■ The net fiscal impact of immigrants is positive. That is, immigrants pay more in taxes than they use in services over their lifetimes. The discounted present value fiscal dividend from each additional immigrant is estimated to be between $20,000 and $80,000. The size of the fiscal dividend depends on the skill and education levels of the immigrants.

All of these findings lead to one inescapable conclusion about the fiscal impact of the new immigrants: they do not cost—they pay.

N o t e s

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