The Fiscal Impact Of Immigration Reform: The Real Story

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One frequently heard criticism of comprehensive immigration reform is that it will prove too costly to taxpayers. The mostly low-skilled workers who would be admitted and legalized under the leading reform plan now being considered by the U.S. Congress would typically pay fewer taxes than native-born Americans and presumably consume more means tested welfare services. Critics of reform argue that legalizing several million undocumented workers and allowing hundreds of thousands of new workers to enter legally each year will ultimately cost American taxpayers billions of dollars.

One recent study from the Heritage Foundation, for example, claims that each "low-skilled household" (one headed by a high-school dropout) costs federal taxpayers $22,000 a year. Spread out over 50 years of expected work, the lifetime cost of such a family balloons to $1.1 million. If immigration reform increases the number of such households in the United States, it will allegedly cost U.S. taxpayers several billion dollars a year.[1]

It is certainly true that low-skilled workers do, on average, consume more in government services than they pay in taxes, especially at the state and local levels. But some of the estimates of that cost have been grossly exaggerated. Moreover, the value of an immigrant to American society should not be judged solely on his or her fiscal impact.

The Real Fiscal Impact of Immigration

The wilder estimates of the fiscal impact of low-skilled immigrants are contradicted by more credible estimates. In May 2006 the Congressional Budget Office calculated that the 2006 Comprehensive Immigration Reform Act (S. 2611) then before the U.S. Senate would have a positive impact of $12 billion on the federal budget during the decade after passage. The 2006 legislation, like current proposals, would have allowed low-skilled foreign-born workers to enter the United States through a temporary worker program, and it would have allowed several million undocumented workers in the United States to obtain legal status.

Specifically, the CBO estimated that federal spending would increase $53.6 billion during the period 2007–16 if the legislation became law, primarily because of increases in refundable tax credits and Medicaid spending.[2] The additional spending would be more than offset in the same period by an even greater increase in federal revenues of $65.7 billion, mostly due to higher collections of income and Social Security taxes but also because of increased visa fees.[3]

One frequently cited figure on the cost of low-skilled immigrants comes from the authoritative 1997 National Research Council study, *The New Americans: Economic, Demographic, and Fiscal Effects of Immigration*. The study calculated the lifetime fiscal impact of immigrants with different educational levels. The study expressed the impact in terms of net present value (NPV), that is, the cumulative impact in future years expressed in today’s dollars. The study estimated the lifetime fiscal impact of a typical immigrant without a high school education to be a negative NPV of $89,000.[4] That figure is often cited by skeptics of immigration reform.

What is less often considered is that the NRC study also measured the fiscal impact of the descendants of immigrants. That gives a much more accurate picture of the fiscal impact of low-skilled immigrants. It would be misleading, for example, to count the costs of educating the children of an immigrant without considering the future taxes paid by the educated children once they have grown and entered the workforce. The children of immigrants typically outperform their parents in terms of educational achievement and income. As a result, the NRC calculated that the descendants of a typical lowskilled immigrant have a positive $76,000 fiscal impact, reducing the net present value of the fiscal impact of a lowskilled immigrant and descendants to $13,000.[5]

Even that figure does not give the full picture. As the NRC study was being written, Congress passed the 1996 Personal Responsibility and Work Opportunity Reconciliation Act, otherwise know as the 1996 Welfare Reform Act. The act contains an entire title devoted to restricting immigrant access to means-tested welfare, limiting access of noncitizens to such public benefit programs as food stamps and Medicaid. When the NRC study accounted for the impact of the 1996 Welfare Reform Act, the fiscal impact of a single low-skilled immigrant and descendants was further reduced to $5,000 in terms of net present value.[6]

If we accept the NRC estimates, then allowing an additional 400,000 low-skilled immigrants to enter the United States each year would have a one-time NPV impact on federal taxpayers of $2 billion. That cost, while not trivial, would need to be compared to the efficiency gains to the U.S. economy from a larger and more diverse supply of workers and a wider range of more affordable goods and services for native-born Americans. In a post–September 11 security environment, comprehensive immigration reform could also reduce federal spending now dedicated to apprehending illegal economic immigrants.

Accessing the Impact on Roads, Schools, Hospitals, and Crime

Increased immigration has also been blamed for crowded roads, hospitals, public schools, and prisons. In all four of those cases, the negative impact of immigration has been exaggerated.

As for congestion of roads, immigration has played a secondary role in population growth nationally and at a more local level. Nationally, net international migration accounts for 43 percent of America’s annual population growth, with natural growth still accounting for a majority of the growth. On a local level, an analysis of U.S. Census data shows that, for a typical U.S. county, net international migration accounted for 28 percent of population growth between 2000 and 2006. Natural growth from births over deaths accounted for 38 percent of growth on a county level and migration from other counties 34 percent.[7] One-third of U.S. counties actually lost population between 2000 and 2006 as birthrates continue to fall and Americans migrate internally to the most economically dynamic metropolitan areas. If local roads seem more crowded, it is not typically immigration but natural growth and internal migration that are mostly responsible.

As for alleged overcrowding at public schools, lowskilled immigrants cannot be singled out for blame. Enrollment in the public school system has actually been declining relative to the size of America’s overall population. The share of our population in K-12 public schools has fallen sharply in recent decades, from 22 percent of the U.S. population in

1970 to 16 percent today.[8] As with roads, overcrowding in certain school districts is more likely to be driven by new births and internal migration than by newly arrived immigrants.

As for crime and the inmate population, again, immigration is not the major driver. Indeed, the violent crime rate in the United States has actually been trending down in recent years as immigration has been increasing. After rising steadily from the 1960s through the early 1990s, the rate of violent crime in the United States dropped from 758 offenses per 100,000 population in 1991 to 469 offenses in 2005. As a recent study by the Immigration Policy Center concluded, "Even as the undocumented population has doubled since 1994, the violent crime rate in the United States has declined 34.2 percent and the property crime rate has fallen 26.4 percent."[9]

Immigrants are less likely to be jailed than are their native-born counterparts with similar education and ethnic background. The same IPC study found that "for every ethnic group without exception, incarceration rates among young men are lowest for immigrants, even those who are least educated."[10] Other studies reveal that immigrants are less prone to crime, not because they fear deportation, but because of more complex social factors.[11] All the available evidence contradicts the misplaced fear that allowing additional low-skilled immigrants to enter the United States will somehow increase crime and incarceration rates.

As for hospitals, especially emergency rooms, the presence of uninsured, low-skilled workers in a particular area does impose additional costs on hospitals in the form of uncompensated care. There is no evidence, however, that illegal immigration is the principal cause of such costs nationwide. Indeed, low-skilled immigrants tend to underuse health care because they are typically young and relatively healthy.

A recent report from the Rand Corporation found that immigrants to the United States use relatively few health services. The report estimates that all levels of government in the United States spend $1.1 billion a year on health care for undocumented workers aged 18 to 64. That compares to a total of $88 billion in government funds spent on health care for all adults in the same age group. In other words, while illegal immigrants account for about 5 percent of the workforce, they account for 1.2 percent of spending on public health care for all working-age Americans.[12]

Impact on State and Local Governments

Although the fiscal impact of low-skilled immigrants has been exaggerated by opponents of reform, it can impose real burdens at a local level, particularly where immigration inflows are especially heavy. The 1997 National Research Council study found that, although the fiscal impact of a typical immigrant and his or her descendants is strongly positive at the federal level, it is negative at the state and local level.[13]

State and local fiscal costs, while real, must be weighed against the equally real and positive effect of immigration on the overall economy. Low-skilled immigrants allow important sectors of the U.S. economy, such as retail, cleaning, food preparation, construction, and other services, to expand to meet the needs of their customers. They help the economy produce a wider array of more affordably priced goods and services, raising the real wages of most Americans. By filling gaps in the U.S. labor market, such immigrants create investment opportunities and employment for native-born Americans.

Immigrants are also consumers, increasing demand for American-made goods and services.

Several state-level studies have found that the increased economic activity created by lower-skilled, mostly Hispanic immigrants far exceeds the costs to state and local governments. A 2006 study by the Kenan Institute of Private Enterprise at the University of North Carolina at Chapel Hill found that the rapidly growing population of Hispanics in the state, many of them undocumented immigrants, had indeed imposed a net cost on the state government of $61 million, but the study also found that those same residents had increased the state's economy by $9 billion.[14]

A 2006 study by the Texas comptroller of public accounts reached a similar conclusion. Examining the specific fiscal impact of the state's 1.4 million undocumented immigrants, the study found that they imposed a net fiscal cost on Texas state and local governments of $504 million in 2005. The fiscal cost, however, was dwarfed by the estimated positive impact on the state's economy of $17.7 billion.[15]

The Right Policy Response

The right policy response to the fiscal concerns about immigration is not to artificially suppress labor migration but to control and reallocate government spending. The 1996 Welfare Reform Act was a step in the right direction. It recognized that welfare spending was undermining the longterm interests of low-income households in the United States, whether native-born or immigrant, by discouraging productive activity. The law led to a dramatic decrease in the use of several major means-tested welfare programs by native-born and immigrant households alike. Further restrictions on access to welfare for temporary and newly legalized foreign-born workers would be appropriate.

Another appropriate policy response would be some form of revenue sharing from the federal to state and local governments. The federal government could compensate state and local governments that are bearing especially heavy up-front costs due to the increase in low-skilled immigration. The transfers could offset additional costs for emergencyroom health care services and additional public school enrollment. Such a program would not create any new programs or additional government spending; it would simply reallocate government revenues in a way that more closely matched related spending.

Misplaced apprehensions about the fiscal impact of immigration do not negate the compelling arguments for comprehensive immigration reform,[16] nor do they justify calls for more spending on failed efforts to enforce our current dysfunctional immigration law. If the primary goal is to control the size of government spending, then Congress and the president should seek to wall off the welfare state, not our country.

Endnotes

[1] Robert E. Rector, Christine Kim, and Shanea Watkins, "The Fiscal Cost of Low-Skill Households to the U.S. Taxpayer," Heritage Foundation Special Report no. 12, April 4, 2007.

[2] Congressional Budget Office, "S. 2611: Comprehensive Immigration Reform Act of 2006," Congressional Budget Office Cost Estimate, May 16, 2006, p. 7, www.cbo.gov/ftpdocs/72xx/doc7208/s2611.pdf.

[3] Ibid., p. 27.

[4] James P. Smith and Barry Edmonston, eds, *The New Americans: Economic, Demographic, and Fiscal Effects of Immigration* (Washington: National Academies Press, 1997), p. 334.

[5]Although the NRC considered the fiscal impact of multiple generations, its study notes that "much of the impact of descendants is actually experienced during the lifetime of the immigrant." Ibid.

[6] Ibid., p. 339.

[7] U.S. Census Bureau, "Cumulative Estimates of the Components of Population Change for Counties: April 1, 2000 to July 1, 2006," Population Division, 2007, http://www.census.gov/popest/counties/CO-EST2006-04.html, accessed May 10, 2007.

[8] For U.S. population figures, see *Statistical Abstract of the United States: 2007* (Washington: U.S. Census Bureau), Tables 1 and 2; for public school K-12 enrollment, see U.S. Department of Education, National Center for Educational Statistics, "Digest of Educational Statistics: 2005," www.nces.ed.gov/programs/digest/d05/tables/dt05_037.asp.

[9] Rubén G. Rumbaut and Walter A. Ewing, "The Myth of Immigrant Criminalty and the Paradox of Assimilation: Incarceration Rates among Native and Foreign-Born Men," Immigration Policy Center Special Report, Spring 2007, p. 1.

[10] Ibid.

[11] Ibid., pp. 12–14.

[12] Rand Corporation, "Rand Study Shows Relatively Little Public Money Spent Providing Health Care to Undocumented Immigrants," news release, November 14, 2006, www.rand.org/news/press.06/11.14.html.

[13] National Research Council, p. 351.

[14] John D. Kasarda and James H. Johnson Jr., "The Economic Impact of the Hispanic Population on the State of North Carolina," University of North Carolina at Chapel Hill, Kenan Institute of Private Enterprise, January 2006, p. ix, www.kenanflagler.unc.edu/assets/documents/2006_KenanInstitute_HispanicStudy.pdf.

[15] Carole Keeton Strayhorn, "Undocumented Immigrants in Texas: A Financial Analysis of the Impact to the State Budget and Economy," Office of the Comptroller, Texas, Special Report, December 2006, p. 20.

[16] For a more detailed analysis of comprehensive immigration reform, see Daniel Griswold, "Comprehensive Immigration Reform: Finally Getting It Right," Cato Institute Free Trade Bulletin no. 29, May 16, 2007; Douglas S. Massey, "Backfire at the Border: Why Enforcement without Legalization Cannot Stop Illegal Immigration," Cato Institute Trade Policy Analysis no. 29, June 13, 2005; and Daniel Griswold, "Willing Workers:

Fixing the Problem of Illegal Mexican Migration to the United States," Cato Institute Trade Policy Analysis no. 19, October 15, 2002.

About The Author

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