Department of the Treasury

SHADOW SECRETARY OF THE TREASURY EDWIN RUBENSTEIN

The Treasury Department promotes global economic growth and stability and is an advocate for greater economic opportunity and security for U.S. citizens. Treasury is the lead agency in the government's efforts to reduce the tax burden on working Americans. Treasury is also leading efforts to reform the major entitlement programs, Medicare and Social Security, to make sure they remain solvent and are able to meet spending commitments without placing an undue burden on future generations of Americans. Specific departmental responsibilities include managing federal finances; collecting taxes and paying all bills of the United States; managing the public debt; enforcing federal finance and tax laws; and investigating and prosecuting tax evaders.

Immigration Fiscal Impact Statement

This statement summarizes the impact of immigration on Treasury's ability to achieve these objectives.

Direct Fiscal Burden

Immigrants are poorer, pay less tax, and are more likely to receive public benefits than natives. It follows that government finances are adversely impacted by immigrants—and this negative will increase as the share of immigrants in the population increases.

There is surprisingly little objective research on the fiscal burden imposed by immigrants. The best study is still that in *The New Americans*, the National Research Council (NRC)'s 1997 study of immigration's economic and demographic impact. The NRC staff analyzed federal, state, and local government expenditures on programs such as Medicaid, AFDC (now TANF), and SSI, as well as the cost of educating immigrants' foreign- and native-born children. The NRC also estimated the average immigrant household's share of: police and fire protection, defense, public works, recreation, higher education, and municipal assistance.

NRC found that the average immigrant household receives \$13,326 in federal expenditures and pays \$10,664 in federal taxes—that is, they generate a fiscal deficit of \$2,682 (1996 dollars) per household. In 2007 dollars, this is a deficit of \$3,408 per household.

At the state and local level, NRC found immigrant households pay taxes averaging \$7,718 and receive benefits worth an average \$11,181—producing a net fiscal deficit of \$3,463 (1996 dollars.) In 2007 dollars this is a deficit of \$4,398 per household.

Thus the average immigrant household generates a total (federal, state, and local) fiscal deficit of \$7,806. This is the net subsidy immigrant households receive from households headed by U.S. natives. There are currently about 36 million immigrants living in about 9 million households, so the aggregate deficit attributable to immigrants comes to \$70.3 billion (\$7,806 × 9 million.)

The Census Bureau's mid-level projection is that we will add 120 million people to our current 300 million by the year 2050. Seventy percent of this increase will likely be traceable to immigrants and their descendants, if current policy is maintained. This implies that the immigrant stock will increase by 84 million, to approximately 120 million, by 2050. If the per household fiscal deficit remains as it is today, by mid-century the aggregate deficit due to immigrants would be \$234.8 billion (\$7,806 × 30 million).

If the Bush Administration's guest worker amnesty is passed, the immigrant fiscal deficit will be significantly larger than projected. Many erstwhile illegals would receive benefits they currently are not entitled to or are reluctant to apply for. Although their tax payments may also increase, research suggests their benefit payments will rise by more.

By mid-century the immigrant fiscal deficit alone could exceed the largest deficits experienced thus far in the nation's history.

Indirect Fiscal Burden

A study by Harvard University Professor George Borjas finds that each 10 percent increase in the U.S. labor force due to immigration reduces native wages by about 3.5 percent.[1] Foreign-born workers account for about 15.0 percent of the U.S. labor force. If Borjas is right, immigrant workers reduce average native wages by 5.25percent (15.0/10.0 × 3.5 percent).

This obviously will reduce revenues from personal income taxes, payroll taxes, sales, and excise taxes. By contrast, corporate income tax receipts will probably rise because cheap immigrant labor reduces costs and increases profits of U.S. corporations.

A "quick and dirty" way to estimate lost revenues is to assume that tax revenues based on personal income decline at the same rate as personal income. If U.S.-born workers suffer a 5.25percent reduction in income, total personal income will fall by about 4.6percent, the difference reflecting the fact that native-born workers receive 88percent of personal income. [2]

Using this model, we calculate that taxes paid by native-born workers are about $98.4 billion lower due to immigrant-related wage losses. The estimated deficit from immigration is thus nearly $169 billion—$70.3 billion direct and $98.4 billion from the displacement of native workers.

Earned Income Tax Credit

The Earned Income Tax Credit (EITC) is the nation's most expensive means-tested program for working families, with $36 billion distributed in 2006. EITC is a "refundable" tax credit. That means even a worker who pays no taxes or pays less than the amount of the credit receives a check from the IRS.

More than one in four of all immigrant households received EITC in 2000, nearly twice the 13.2 percent eligibility of households headed by native-born Americans. Because immigrant households are larger, their tax refund payments are larger. In 2000, immigrant households received tax credit payments averaging $1,700 versus $1,450 for natives.

Illegal immigrants are eligible for EITC payments on behalf of their native-born children. But the IRS does little to verify the claim that such children actually exist or that they have lived with the worker for more than six months of the year, as required by law. Many immigrants claim nonexistent children, or claim children whom they've left behind with relatives.

Fraudulent EITC payments are no different than outright tax evasion: they shift the burden of taxation from dishonest to honest citizens. Treasury and the IRS are obligated to control this abuse.

Economic Bottom Line: A Loss

American economists have made relatively little effort to measure the overall economic effects of immigration. But when they have, the answer is clear: immigration does not contribute much to economic growth. The consensus: the economic surplus (benefits less costs) generated by immigrants and accruing to native-born Americans is very small—about one-tenth of one percent of GDP.

One-tenth of one percent of GDP translates to a $12.5 billion immigration surplus. But if immigration imposes a fiscal loss on native taxpayers of $169 billion—as we calculate above—its net economic impact is a negative $156 billion.

American society is being transformed by a policy that, at the end of the day, makes us poorer. ■

End Notes

1. George J. Borjas, "The Labor Demand Curve Is Downward Sloping: Reexamining the Impact of Immigration on the Labor Market," *The Quarterly Journal of Economics*, November 2003.

2. In 2004, U.S.-born workers accounted for 85 percent of the workforce and an estimated 88 percent of personal income. Median weekly income of U.S.-born workers in 2003 was $688; foreign-born workers earned $511 per week.