The Wrong Answer
Immigration is not the right way to fix Social Security

by John Attarian

[*Immigration enthusiasts, including the Cato Institute, Ben Wattenberg, and the* Wall Street Journal, *claim that importing even more immigrants will save the Social Security system by injecting additional payments to help keep the program afloat. Like most of their other assertions, this one isn't true. Dr. John Attarian, a regular contributor to* The Social Contract, *has just written a monograph dissecting this proposition. We are pleased to publish the Executive Summary and urge readers to study the entire report.*]

T he Social Security program, which taxes labor incomes to pay benefits to retirees, survivors of deceased Social Security taxpayers, and disabled persons, will face a crisis as the large Baby Boom generation retires and collects benefits, but is supported by the smaller

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John Attarian, Ph.D., with a doctorate in economics from the University of Michigan, is a freelance writer and independent scholar living in Ann Arbor, Michigan. He is the author of Economism and the National Prospect *and* Social Security: False Consciousness and Crisis.

generation of taxpayers born after 1965. With the number of taxpayers supporting each beneficiary declining, tax rates mandated by current law will not suffice to pay all benefits mandated by current law. By 2041, Social Security will be unable to pay full benefits on time.

Because this crisis is driven by the demographics of an aging population, supporters of immigration such as Julian Simon and Ben Wattenberg have argued that increasing immigration will significantly strengthen Social Security's finances, perhaps even solve the problem altogether. On an intuitive level, this is an obvious answer: if the essential problem is an older beneficiary population growing faster than the population of younger taxpaying workers, the thing to do is to add more younger workers.

Some opponents of immigration retort that the Social Security crisis is not real, arguing that only minor changes in taxes and benefits will suffice to keep the program solvent, or that the total dependency ratio (the ratio of the population of children and elderly to the population of working-age adults) will be little changed by the retirement of the Baby Boomers because the cohort of children will be smaller. Neither of these arguments is

tenable. Eliminating Social Security's long-term actuarial deficit through changes in taxes and benefits will still leave large annual cash deficits in the distant future, which must be covered by the Treasury. And since Social Security is primarily a program for supporting the elderly, the only ratio that really matters is that between the elderly and the working-age adult populations; the children are irrelevant.

So the Social Security crisis is real. But it does not follow that immigration is the cure. Immigrationists, drawing on a 1998 study by Stephen Moore, claim that immigrants are already "keeping Social Security afloat." Moore argued that net immigration (immigration minus emigration) of 800,000 a year was already contributing $1,934 billion (1998 dollars) to Social Security's revenues over the 1998-2072 period, and that an increase of annual net immigration to one million would raise immigration's revenue contribution to $2,418 billion. Therefore, immigration would be crucial to any solution to Social Security's problems. But Moore's study rests on a confusion of three totally unrelated concepts: unfunded liability, long-term actuarial deficit, and the sum of inflarionadjusted revenues. It also employs an unsound method,

applying results obtained from the Social Security actuaries' immigration sensitivity test, which rests on present-value figures, to summed inflation-adjusted tax revenues. Finally, while Moore's figures for immigration's alleged contributions to Social Security's revenues look impressive in isolation, they collapse into insignificance when stood beside Social Security's inflation-adjusted total revenues for1998-2072 of $53,752 billion, total outlays of $70,086 billion, and deficit of -$16,334 billion. Increasing annual immigration to one million would increase revenue by 0.9 percent and reduce the deficit by just 3.0 percent. The inescapable conclusion is that immigrants are hardly "keeping Social Security afloat" and that massive increases in immigration will not do much to save it. Other claims by immigration advocates about immigration's contributions to Social Security also collapse when put in context. For example, the Urban Institute claimed that illegal immigrants paid 52.7 billion in Social Security taxes in 1990. This comes to 0.91 percent of the $296.1 billion in payroll tax revenues for 1990. In that year Social Security paid $247.8 billion in benefits, or $679 a day. The illegals' alleged revenue contribution would have covered benefit costs for just *four days*.

Peter Francese of *American Demographics* maintained that Social Security's problems could be solved if we admitted enough immigrants to keep the ratio of taxpayers to beneficiaries at its current level. It turns out, however, that following this prescription would result in an immigrant flood, with America admitting up to five or six million adult immigrants annually as the Baby Boomers retire. Moreover, immigrants get old, too, and supporting this huge population of immigrant taxpayers when they become Social Security

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beneficiaries would require another massive wave of immigration. All in all, we would have to more than double our labor force by adding 183.6 million immigrants and their adult children by 2080. That does not take into account elderly immigrants and minor children who, of course, would also arrive.

Ben Wattenberg argued that immigration is "the easy solution to the Social Security crisis" because it immediately increases the population of working-age, taxpaying adults. If we doubled our annual net immigration, he argued, it would reduce Social Security's deficit by 28 percent. It turns out that Wattenberg's argument is based on the Social Security actuaries' immigration sensitivity test, in which the assumed level of immigration is changed, all other variables are held constant, and Social Security's long-term actuarial balance is recalculated, in order to see how much difference changing the immigration assumption makes for this figure. The sensitivity test implies that to totally eliminate the long-term actuarial deficit, we would have to quadruple our annual net immigration, to some 3,600,000 a year. The need for such massive doses implies that the immigration medicine is pretty weak. Comparison of the results of the immigration sensitivity test to those for other variables affecting Social Security's long-term actuarial deficit (e.g., death rates, fertility, growth in real wages) confirms that verdict.

Moreover, Wattenberg's argument is simplistic, because it assumes that immigration has only one, positive effect on Social Security's outlook: immigrants take jobs and pay Social Security taxes. This rests on a shallow and simplistic misuse of the sensitivity test, which holds all other variables in the actuarial calculation constant in order to determine how much varying one assumption matters for the long-term actuarial deficit. In reality, other variables do not hold still. Enormous increases in immigration would, naturally, affect things like labor productivity and wages, and since Social Security is financed by taxes on labor incomes, these will

in turn affect Social Security's revenues. Labor productivity growth and real wage growth improve Social Security's finances. Economic logic and empirical evidence suggest that massive immigration would depress productivity growth, unless the increase in the labor force were matched by an increase in the capital stock, which would require levels of investment which are impossible to attain. It is clear that enormous augmentation of the labor force would depress wages. The implications of these effects for Social Security revenues are obviously negative. It follows that massively increasing immigration will not necessarily improve Social Security's cash flow much, and may even adversely affect it.

Furthermore, the majority of immigrants have little education and low skills, and work in menial, poorly paid jobs. Such poor immigrants are necessarily poor Social Security taxpayers, which implies that adding many more of them is unlikely to raise revenue enough to save the program. As for the highly skilled immigrants who work in the information technology sector, revenue gains from this source are offset by the widespread use of contract labor under the H-1B program whereby no Social Security taxes are paid by the immigrants or their American employers; by the lower salaries paid to immigrant workers as opposed to Americans, which means lower revenues for Social Security; and by displacement of American workers into lower-paying jobs, which also entails

revenue losses.

Moreover, the National Research Council's 1997 study on the economic and fiscal impact of immigrants, *The New Americans*, when examined rigorously, does not support the immigrationists' argument that immigrants are a massive net fiscal gain. The study's finding that admitting an additional immigrant has a net present value to federal, state, and local finances of $80,000 (i.e., revenue gains exceed benefit and other costs by $80,000 in today's dollars) obtains over a 300-year time horizon, and depends decisively on an assumption that in 2016 Congress decides to stabilize the ratio of gross federal debt to Gross Domestic Product at the 2016 level by raising taxes and cutting spending, and maintain it there indefinitely. Other examinations of immigration's contribution to public finances and to Social Security by professional economists found that immigration's contribution would be small, or that even skilled-based immigration would have to be enormously increased to be of help.

The case for increasing immigration to save Social Security, then, is illusory. Moreover, such a massive increase in America's population as this strategy would entail would calamitously overload our environment. Water resources, already strained by our high consumption, would shrivel under the burden. The need for more land to accommodate the far-larger population would collide with the need to cultivate more

land in order to feed it. Finally, population growth accounts for virtually all of America's increase in energy use, and immigration is the main force driving population growth. Meanwhile, according to many well-informed petroleum geologists, the world's extraction of conventional oil will probably peak some time in this decade and then go into an irreversible decline. Alternative energy sources are either highly energy-costly to develop or of only limited use. In that context, massively increasing immigration will be a disaster. Further problems are the risk of Balkanization, increased crime, terrorism at home, and the possibility that non-white immigrants would understandably balk at paying taxes to support mostly white American Social Security beneficiaries.

When al these collateral negatives are added to the fictive positive, the only conclusion is that increasing immigration to shore up Social Security is a massively wrong answer.

There are, finally, grave moral problems with the immigration solution to Social Security. It would tax mostly poor immigrants to support more affluent Americans because we lack the courage to put our fiscal house in order, and it would leave to our descendants a crime-ridden and Balkanized nation, a crippled economy, and a ruined ecosystem.
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[*The full text of Dr. Attarian's 60-page monograph is available at The Social Contract Press for $6.00. Call 1-800-352-4843.*]