

Government Deficits and a Moratorium

Part 2

What is the fiscal impact of immigration? The answer consists of many parts. At the federal level there are payments to immigrants and their children: Social Security,

Medicare, Medicaid, Temporary Assistance for Needy Families (TANF), Food Stamps, the Earned Income Tax Credit, along with many smaller transfer programs. At the state and local level, public education is the most expensive expenditure item. Spending for police and fire protection, prisons, infrastructure, and debt interest are also impacted by foreign-born residents.

Although immigrants pay taxes, their payments do not offset the total costs of services received. Indeed, when the reduction in native incomes (and taxes) caused by competing immigrant labor is taken into account, the net revenue contribution could well be negative.

There have been surprisingly few comprehensive studies of immigration's fiscal impact. The most extensive and authoritative analysis is still the National Research Council's *The New Americans: Economic, Demographic and Fiscal Effects of Immigration*, published in 1997.

The NRC staff analyzed the fiscal balance generated by immigrant and native households in the state of California. Households are classified as native or immigrant by the country in which the household's head was born. Using households rather than individuals as the basic unit of analysis ensures that the costs incurred on behalf of immigrants and their U.S.-born children are counted as a cost of immigration.

Federal, state, and local expenditures analyzed by NRC included Medicare, Medicaid, Social Security, Aid to Families with Dependent Children (now TANF), K-12 public education, police, fire, and infrastructure. Payments made by immigrant and native households for state and federal income taxes, Social Security taxes,

and sales and property taxes, along with other taxes and fees, were also estimated by NRC.

At both the federal and state/local level, immigrant households generate fiscal deficits — i.e., they receive more benefits than they pay in taxes:

The Immigration Fiscal Deficit, 2010

(Per year; Per immigrant headed household; 2010 dollars)

	Expenditures	Revenues	Deficit
Federal	\$18,606	\$14,862	\$3,745
State and local	\$15,611	\$10,776	\$4,835
Total	\$34,218	\$25,638	\$8,580

Data Source: National Research Council, *The New Americans*, 1997.
Tables 6.3 and 6.4. <http://www.nap.edu/openbook.php?isbn=0309063566>

Putting NRC's findings into 2010 dollars, the average immigrant household in California receives \$4,835 per year more in state and local benefits than it pays in state and local taxes; at the federal level the corresponding imbalance is \$3,745.

Combining the two deficits the total deficit imposed by an average immigrant household is \$8,580. This is the average for all immigrant households in California — ranging from the poorest illegal alien farm worker to a Silicon Valley billionaire. We use it to calculate the national immigration deficit.¹

Nationally there are about 12.9 million households headed by immigrants. Multiplying 12.9 million immigrant households by the average per household deficit (\$8,580) we arrive at \$110.7 billion as the fiscal shortfall attributable to immigration in 2010. This shortfall must be covered by native households.²

The annual fiscal burden imposed on a typical native household could be as high as \$984 (\$110.7 billion shared over 112.5 million native households). This is the amount an average native household is forced to

pay for government services received by immigrants already in the U.S. The burden represents 1.4 percent of the average household's income of approximately \$68,000 in 2010.³

Conclusion: native-born Americans pay a tax averaging 1.4 percent of income to provide government benefits to immigrants.

The view from 2050

Under current immigration policy, the foreign-born population is expected to more than double, reaching 81.6 million in 2050; a 40-year moratorium would reduce the number of foreign born by about three-fourths, to 20.2 million.⁴ Using the same fiscal deficit as in 2010 (\$8,580 per immigrant) and the same household size (3.1 persons per immigrant household), the annual immigration deficit will be \$226 billion in 2050 under current policy versus only \$56 billion if a moratorium on new entrants had been in effect.

Immigration policy also impacts the native-born population via the U.S.-born children of immigrants. Over a 40-year period most of these native-born children will themselves become heads of households, burdened with supporting newer generations of immigrant households.



The taxes native households will pay to support immigrants in 2050 (in 2010 dollars) are projected as follows:

- **Current immigration policy:** \$1,518 per household (2.2 percent of household income)

- **Moratorium:** \$444 per household (0.7 percent of household income).

- **Conclusion:** A moratorium could reduce the fiscal burden of immigration by nearly 75 percent.

For decades the education and income levels of new immigrants has deteriorated relative to those of natives, reflecting the switch from fairly well educated, predominantly European based immigrant groups to unskilled arrivals from Mexico and Latin America. If this trend continues immigrant households in 2050 will generate significantly larger deficits than projected above.

Similarly, if today's economic stagnation and high unemployment persists our assumption that average real household income in 2050 will be about where it is today will look wildly optimistic.

Both trends portend an ever increasing imbalance between government benefits received and taxes paid by immigrants. In the long-run, deficit reduction will require immigration reform.

In the following sections we highlight immigration's impact on Medicaid, Social Security, public education, and infrastructure. ■

Endnotes

1. Because California has relatively generous welfare programs, the national estimate using the California budget provides an upper-bound estimate for the impact of immigration.
2. Immigrant-headed households are larger than native-headed ones, averaging 3.1 persons versus 2.4 persons for natives. <http://www.cis.org/articles/2007/back1007.html> The 12.9 million immigrant households figure for 2010 is based on an immigrant population of 40 million. Similarly, the estimated number of native households (112.5 million) is based on a native-born population of 270 million.
3. Census Bureau, *Statistical Abstract 2011*, Table 691. http://www.census.gov/compendia/statab/cats/income_expenditures_poverty_wealth/household_income.html
4. Current policy estimates are based on studies of immigration's impact on future U.S. population growth by the Pew Research Center <http://pewhispanic.org/reports/report.php?ReportID=85> and the Census Bureau <http://www.census.gov/population/www/projections/analytical-document09.pdf>

The moratorium (no immigration) scenario uses Hispanic death rates to reduce the foreign-born population over the 2010 to 2050 period.