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Immigration and the Economy—Part II

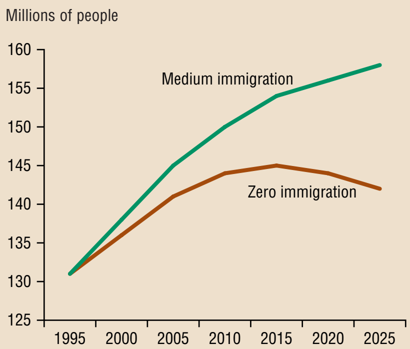
ONE OF THE difficult questions that arises in the ongoing public debate on immigration is whether immigrants to the United States represent an overall cost or benefit to the U.S. economy. The answer to this question centers in part on the extent to which immigrants contribute to the labor force, compete for jobs with native workers and provide goods and services that otherwise would not be produced. The answer also centers on the fiscal impact of immigration—the amount of taxes immigrants pay relative to the amount of government services they receive.

This final article of a two-part series on immigration addresses these issues, drawing on the research and ideas presented at "Immigration and the Economy," a conference sponsored by the El Paso Branch of the Federal Reserve Bank of Dallas.[1]

Immigration's Place in Population and Labor Force Growth

The most basic impact of immigration in any country is on its population growth and, therefore, the size of its labor force. Assuming current levels of immigration, a little more than half the growth in the U.S. population between 1995 and 2025 will come from new immigrants and their descendants. Similarly, more than half of the growth in the U.S. labor force—16.5 million people—will be attributed to

CHART 1
LABOR FORCE DECLINES WITHOUT IMMIGRATION



NOTE: Medium immigration assumes 1,040,000 immigrants per year.

SOURCE: Jeffrey S. Passel and Barry Edmonston, "Immigration and the Future American Work Force," The Urban Institute, 1998.

post-1995 immigrants and their descendants.[2] Without immigration, however, the U.S. labor force would begin to decline after 2015 (*Chart 1*).

A 1997 Congressional Research Service study on the education and skill distribution of jobs for 1994–2005 estimates that the highest job growth over this 10-year period will occur in jobs that have high-skill requirements (requiring some postsecondary education at a minimum). However, many occupations with limited skill requirements—such as personal service workers, cleaning and building service occupations, and retail sales clerks—will also show above-average job growth. Thus, though the economy in 2005 will demand growing numbers of workers with high education and skill levels (reflecting technology's increasing importance), about half of all jobs available then will require only a high school education or less.[3]

A look at the skill profile of immigrants shows that immigrants will fill employers' projected labor needs. Immigrants to the United States are disproportionately included in both some very low-skilled occupations—waiters, housekeepers, agricultural and textile workers—and some very high-skilled occupations—physicians, chemists, engineers and physics professors. Also, immigrants are represented in occupations that require little education but much skill, such as tailors, dressmakers and jewelers.[4] This is concomitant with immigrants' overrepresentation at both ends of the education spectrum—relative to natives, more immigrants have less than a high school education and more have college degrees.[5] However, because immigrants are more predominantly found at the low end of the education distribution, they are more largely concentrated in the low-education, low-skill occupations.[6]

Because native workers are becoming increasingly more educated,[7] they will be commanding more of the high-skilled positions in the labor market and continuously fewer of the low-skilled positions. The skills of most immigrants are suited to the low-skilled occupations, and, therefore, immigrants can be expected to fill this niche in the labor market.

Immigration's Impact on U.S. Residents

Immigration creates both winners and losers in the U.S. economy. Aside from immigrants themselves, those who gain from immigration are those who complement immigrant labor—in general, domestic high-skilled workers and capital owners. Those who lose from immigration are U.S. residents who compete with immigrants for jobs, such as less-skilled domestic workers with low levels of education.

A comprehensive study on immigration by the National Research Council (NRC) published last year describes immigration's impact on different groups of U.S. workers.[8] The study reports that immigration during the 1980s increased the labor supply of all workers by about 4 percent, thus reducing the wages of all low-skilled native-born workers by about 1 percent to 2 percent. On the other hand, wages for high-skilled workers rose, given that immigrants, on net, represent a source of increased demand for the services of these high-skilled workers.

The NRC study reports that immigration has caused a 15 percent increase in the supply of workers with less than a high school education. This competition has reduced the wages of this group of workers by about 5 percent. Stated differently, between 1980 and 1994 about 44 percent of the total decline in wages of workers with less than a high school education was because of immigration. Fortunately, workers in this category represent less than 10 percent of the U.S. workforce.

Though immigration would be expected to have a larger impact in geographic areas that receive large numbers of immigrants, the NRC study reports an insignificant relationship between native wages and the number of immigrants in a particular location. This relationship holds across all types of native workers—skilled and unskilled, male and female, minority and nonminority. Thus, areas where immigrants are concentrated do not suffer disproportionate losses when it comes to wages, even for unskilled workers. According to the NRC study, this suggests that native workers either find other jobs with similar pay or move to other areas.

Interestingly, those who face the greatest loss from immigration are prior waves of immigrants, because newly arrived immigrants are their close substitutes. A 10 percent increase in the supply of immigrants, for example, reduces the immigrant wage by at least 2 percent to 4 percent.

Aside from high-skilled native workers, immigration's winners also include those who buy goods and services produced by immigrant labor. Moreover, to the extent that some immigrants may specialize in activities that otherwise would not have existed domestically, all consumers benefit from the availability of new goods and services and their lower prices.

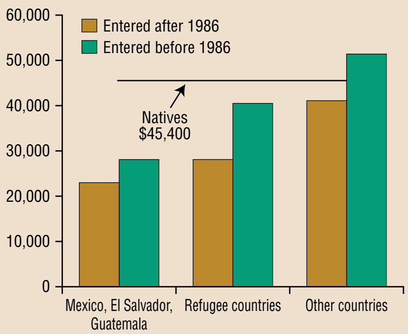
In measuring the magnitude of immigration's overall impact on the U.S. economy, the NRC study concludes that "the most plausible magnitudes of the impact of immigration on the economy are modest for those who benefit from immigration, for those who lose from immigration, and for total GDP." The net gain for the economy may run between $1 billion and $10 billion a year, which is a modest contribution in a $7.6 trillion economy but a positive and significant one in absolute terms.

The Federal, State and Local Fiscal Impacts of Immigration

The fiscal impact of immigration varies across regions and different lev-

CHART 2
IMMIGRANT-HEADED HOUSEHOLDS GENERALLY HAVE LOWER INCOME

Average household income, 1996



SOURCE: The Urban Institute.

els of government. Overall, immigrants have been found to produce a net fiscal gain (that is, they pay more in taxes than they receive in services) at the federal level, but they impose a net burden on the states and local communities where they are concentrated. Thus, though immigrants do not represent a fiscal burden to the nation as a whole, high immigrant-receiving states such as California, New York, Florida, Texas, New Jersey and Illinois absorb a net fiscal cost from their immigrant populations.[9]

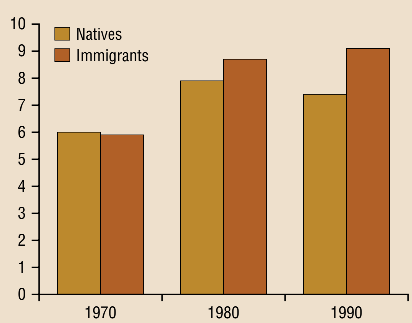
A recent study of California—the state with the nation's largest concentration of immigrants—arrived at estimates of the net fiscal cost immigrants impose on the state for a given year. For the 1994–95 fiscal year, it was estimated that immigrant households incurred a combined state and local negative fiscal balance of $3,178 (in 1996 dollars) per household. Native California households, on the other hand, recorded a positive fiscal balance of $1,178 per household.[10]

Several characteristics of the average immigrant-headed household as compared with native households can explain why immigrants impose a net fiscal burden (receive more in services than they pay in taxes) on state and local communities where immigrants are concentrated: (1) immigrant-headed households have more school-age children than native households and therefore consume more educational services; (2) the education provided to immigrants at times is more expensive because of additional bilingual education classes that may be incorporated into the system specifically for them;[11] (3) immigrant-headed households have lower incomes (*Chart 2*) and own less property than native households, and hence their state and local tax payments are lower; and (4) immigrant-headed households are poorer than native households and thus qualify for more income transfers, even at the state and local levels.[12]

Although state and local communities "lose" from immigration when the fiscal impact of immigrant households is considered for a given year, annual estimates do not capture the full fiscal impact of immigration for the following reasons. First, annual estimates represent only one year's taxes and one year's expenditures, whereas immigration is a dynamic process. Immigrants' incomes, and therefore tax payments, tend to rise with time in the United States, while their use of social services declines. (Once immigrants age and retire, however, they, like natives, will use more in services than they pay in taxes.) Second, annual estimates include those U.S.-born children of immigrants who remain in their parents' households during their school-age years, when they represent a cost to the system, yet exclude them (because they are treated as natives) once they are of working age, have moved out of the immigrant household and become contributors to the system.[13]

CHART 3
IMMIGRANT WELFARE PARTICIPATION HAS INCREASED

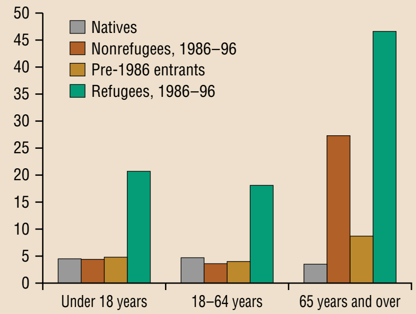
Percent



SOURCE: George Borjas, Harvard University, from remarks presented at the economic forum "Immigration and the Economy."

CHART 4
PUBLIC ASSISTANCE IS CONCENTRATED AMONG REFUGEES AND THE ELDERLY

Percent receiving public assistance, 1996



SOURCE: The Urban Institute.

Immigrant Welfare Use

Another factor used to gauge whether immigration is good or bad for the economy is the incidence of welfare use among immigrants. Welfare participation rates among immigrants from 1970 through 1990 reveal a rising trend. As Chart 3 illustrates, the welfare participation rate among immigrants rose from 5.9 percent in 1970 to 9.1 percent in 1990. Moreover, while welfare participation rates were virtually identical among immigrants and natives in 1970 (at 6 percent), immigrants' use of welfare in 1990 had surpassed the rate of natives by almost 2 percentage points.[14] The lower incomes of immigrants relative to natives explains this trend. However, distinguishing among immigrant types is also important.

Studies show that welfare use among immigrants is mostly concentrated among refugees—who are automatically entitled to welfare assistance upon their arrival in the United States—and the elderly.[15] Duration of residence and age also impact welfare use among immigrants. As Chart 4 shows, when these factors are taken into account, working-age nonrefugee immigrants are less likely than natives to receive welfare. Working-age refugees, on the other hand, have a much higher welfare participation rate.[16]

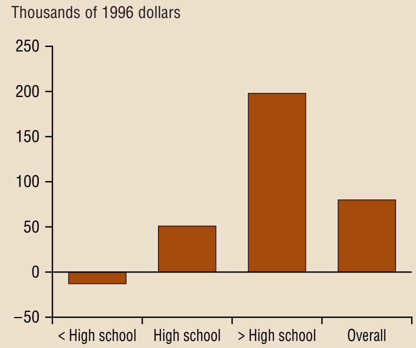
As Chart 4 also shows, elderly immigrants have higher rates of welfare participation than natives. Welfare use among recently arrived elderly immigrants is very high, at 27.3 percent for nonrefugees and 46.6 percent for refugees. This contrasts dramatically with the 3.5 percent welfare participation rate of elderly natives. Such high welfare use by elderly immigrants—particularly in the form of Supplemental Security Income (SSI)—suggests that welfare for this group not only provides income but also access to medical care through Medicaid since many of these immigrants are not eligible for Social Security and Medicare. Thus, SSI use among elderly immigrants may be a substitute for Social Security and Medicare.[17] Conversely, welfare participation among elderly natives may be low because this group does have access to Social Security and Medicare and therefore is less likely to need additional assistance through supplementary programs.[18]

Welfare and immigration laws passed in 1996 should ameliorate the use of welfare among (nonrefugee) immigrants, because the new regulations basically bar immigrants from receiving federal welfare until attaining citizenship, which occurs about seven years after arrival. Also, the law now imposes income requirements for sponsors of immigrants,[19] and the sponsors' obligation to support immigrants is made legally enforceable.[20] For example, sponsors petitioning an immigrant—whether a family member or prospective employee—must prove income equal to 125 percent of the poverty line.[21]

Long-Term Measures of Fiscal Impact

As mentioned above, annual estimates of the fiscal impact of immigrants do not capture the full picture of immigration's effect on public finance. Long-term measures of immigration's impact consider several factors that are absent in the annual estimates. One factor that matters, for example, is the age of the immigrant upon arrival in the United States. Immigrants (like natives) are costly during childhood and old age but are net taxpayers during their working years. Thus, the long-term fiscal impact of an immigrant varies by the age of arrival. Immigrants arriving at ages 10 to 25 usually represent a net long-term fiscal benefit to natives, while immigrants arriving in their late 60s impose a fiscal burden. Yet, because most immigrants arrive at working ages, the long-term net fiscal impact of immigrants as a whole is usually positive.[22]

Chart 5
Better Educated Immigrants Have Positive Fiscal Impact



SOURCE: *The New Americans: Economic, Demographic, and Fiscal Effects of Immigration*, National Research Council, 1997.

Education also bears on the long-term fiscal impact of immigrants. As would be expected, the more education an immigrant embodies, the more positive his or her long-term fiscal impact on the economy. For example, estimates show that immigrants with less than a high school education impose a long-term fiscal burden, while immigrants with a high school education or more contribute a substantial fiscal gain (*Chart 5*).

Comparing immigrants and natives in their participation in public programs also yields interesting long-term conclusions. For programs such as Social Security and Medicare, immigrants receive proportionately lower benefits than natives do. For programs such as SSI, Aid to Families with Dependent Children and food stamps, immigrants receive proportionately more. When the cost of all programs is combined, there is little difference between immigrants and natives. And although immigrants are costlier during childhood than natives (if the cost of bilingual education is assumed), they tend to be less expensive than natives in old age. These differences, over a lifetime, tend to balance out.

Finally, though a long-run assessment of immigration's fiscal impact yields a strongly positive picture at the federal level, the impact at the state and local levels remains negative. Yet, while the positive federal impact is shared evenly across the nation, the negative state and local impacts apply only to the few locations that receive the most immigrants.

Conclusion

Sizing up immigration's overall impact on the economy is not a straightforward process, given the many factors at play, some of which cannot be easily measured. Immigration is often only evaluated in the context of its fiscal implications for the economy or through the impact immigrants exert on the employment and wages of low-skilled native workers. Factors often left out of the analysis of whether immigrants provide a net gain or loss to the economy include the increase in consumption generated by immigrant spending, the tax contributions and job creation (and associated employment tax streams) of immigrant-owned businesses,[23] the impact on productivity of highly skilled immigrants and even the impact of immigrants on urban renewal and its associated fiscal implications.[24]

The evidence suggests that immigrants produce a fiscal gain for the nation as a whole but impose a burden on those states and communities where they are concentrated. This is the case whether immigrant costs and benefits are evaluated in a single year or over the long run. However, over a lifetime, immigrants' fiscal impact at the federal level is much more positive than annual estimates show. Studies also conclude that while most immigrants complement the higher skilled labor force, they impose downward pressure on the wages of the lower skilled. Finally, immigrants play an important role in the continued growth of the labor force. Although immigration's distributional effects may be nontrivial, the overall effects of immigration are relatively small and are dwarfed by many other, more significant factors (such as national saving and investment rates) that more directly impact the performance of the $7.6 trillion U.S. economy.

—Lucinda Vargas
Beverly Fox Kellam

(Continued on page 12)

Immigration and the Economy

(Continued from page 4)

Notes

[1] "Immigration and the Economy," the Third Annual International Economic Forum sponsored by the Federal Reserve Bank of Dallas, El Paso Branch, was held November 14, 1997.

[2] Jeffrey S. Passel, The Urban Institute, Washington, D.C.; outline of remarks presented at the economic forum "Immigration and the Economy."

[3] Linda Levine, "The Education/Skill Distribution of Jobs: How Is It Changing?" (Washington, D.C., Congressional Research Service, Library of Congress, August 8, 1997), pp. 5, 14.

[4] James P. Smith and Barry Edmonston, eds., *The New Americans: Economic, Demographic, and Fiscal Effects of Immigration,* National Research Council (Washington, D.C.: National Academy Press, 1997), pp. 211–14.

[5] Beverly Fox Kellam and Lucinda Vargas, "Immigration and the Economy—Part I," *Southwest Economy,* July/August, 1998, p. 6.

[6] Smith and Edmonston, pp. 218–19.

[7] In 1997, nearly 24 percent of people 25 years or older in the United States had completed four years or more of college. This figure was up from 17 percent in 1980.

[8] Smith and Edmonston, pp. 5–7; 223, 225. Data presented in the remainder of this section rely on the National Research Council's findings.

[9] Passel, economic forum.

[10] Smith and Edmonston, p. 281. A similar study for New Jersey showed the same pattern. For the 1989–90 fiscal year, immigrant households in New Jersey incurred a negative balance of $1,484 (also in 1996 dollars) per household, while native households showed a positive fiscal balance of $232 (p. 276).

[11] Passel, economic forum.

[12] Smith and Edmonston, p. 9.

[13] Passel, economic forum.

[14] George Borjas, Harvard University, outline of remarks presented at "Immigration and the Economy."

[15] Passel, economic forum. The Immigration and Naturalization Service defines refugees as those persons seeking asylum in the United States because they are unable or unwilling to return to their country of origin because of persecution based on their race, religion, nationality, membership in a particular social group or political opinion. Overall, there are no limits on the number of refugee immigrants allowed, though the president sets annual ceilings by geographic area after consultations with Congress.

[16] Passel, economic forum.

[17] Passel, economic forum.

[18] Many economists believe that, to a large extent, Social Security payments to the elderly represent a form of welfare because current beneficiaries receive more in benefits than they contributed to the system.

[19] The majority of legal immigrants enter the United States through a sponsor. Sponsors petition for entry of immigrants based on family or employment considerations. In 1996 nearly 78 percent of the immigrants who were admitted to the United States were sponsored by family members (65 percent) and employers (13 percent).

[20] Passel, economic forum. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (the Welfare Act) changed the welfare system and restricts the access of legal and illegal immigrants to a wide range of public benefits. The Illegal Immigration Reform and Immigrant Responsibility Act of 1996 added to and amended sections of the Welfare Act and includes stricter provisions on the financial status and financial responsibility of sponsors of immigrants. The legislation, however, gives states the option to provide or bar assistance to most qualified immigrants.

[21] James L. Ward, U.S. Consul General, Ciudad Juárez, Chihuahua; outline of remarks presented at "Immigration and the Economy." The Department of Health and Human Services defines the poverty level on an annual basis. In 1996 the poverty line for a family of four was $15,600. Thus, in that year, an immigrant wishing to bring his wife and two children to the United States had to show an annual income of $19,500—an amount equal to125 percent of the poverty level.

[22] Smith and Edmonston, pp. 11–12. Data in the remainder of this section rely on the National Research Council's findings.

[23] See Stephen Moore, *A Fiscal Portrait of the Newest Americans*, National Immigration Forum and the Cato Institute, July 1998, pp. 17–19.

[24] Joel Millman, correspondent, *Wall Street Journal*, Mexico City Bureau, outline of remarks presented at "Immigration and the Economy." Millman's book, *The Other Americans: How Immigrants Renew Our Country, Our Economy, and Our Values*, includes a discussion of how some immigrants, by settling in previously abandoned inner-city areas, have helped revive local economies.

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