Immigration and the Welfare State  
Daniel T. Griswold

Among the more serious arguments against liberalizing immigration is that it can be costly to taxpayers. Low-skilled immigrants in particular consume more government services than they pay in taxes, increasing the burden of government for native-born Americans. Organizations such as the Center for Immigration Studies, the Heritage Foundation, and the Federation for American Immigration Reform have produced reports claiming that immigration costs taxpayers tens of billions of dollars a year, with the heaviest costs borne by state and local taxpayers. No less a classical liberal than Milton Freidman mused that open immigration is incompatible with a welfare state. Responding to a question at a libertarian conference in 1999, Friedman rejected the idea of opening the U.S. border to all immigrants, declaring that “You cannot simultaneously have free immigration and a welfare state” (Free Students 2008).

Contrary to those concerns, immigration to the United States does not pose a long-term burden on U.S. taxpayers. The typical immigrant and his or her descendants pay more in taxes than they consume in government services in terms of net present value. Low-skilled immigrants do impose a net cost on government, in particular on the state and local level, but those costs are often exaggerated by critics of immigration and are offset by broader benefits to the overall economy. And with all due respect to Milton Freidman, practical steps can be taken to allow nations such as the United States to reap the benefits of a more open immigration system while maintaining certain welfare programs for citizens.

Cato Journal, Vol. 32, No. 1 (Winter 2012). Copyright © Cato Institute. All rights reserved.
Daniel Griswold is Director of the Herbert A. Stiefel Center for Trade Policy Studies at the Cato Institute.
Legal Barriers to Collecting Welfare

Despite the common belief, newcomers to the United States are not generally eligible for the full smorgasbord of welfare benefits. Title IV of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 has made it difficult for legal permanent residents in the United States to live as wards of the state. The law, also known as the 1996 Welfare Reform Act, states that “self-sufficiency has been a basic principle of United States immigration law.” In particular, “aliens within the Nation’s borders [should] not depend on public resources to meet their needs,” and “the availability of public benefits [should] not constitute an incentive for immigration to the United States” (U.S. Congress 1996).

The law bars newly legalized permanent residents from eligibility for a range of federal income support programs for at least the first five years of their residency. Those programs include Temporary Assistance for Needy Families, Food Stamps, Supplemental Security Income, Medicaid (Full-Scope), and the Children’s Health Insurance Program (Anderson 2010: 198). The law requires a relative to sign a sworn affidavit committing to support the legal permanent resident for their first five years of residency if needed. Illegal immigrants are ineligible for almost all federal welfare programs.

Once an immigrant becomes a naturalized citizen, he or she is eligible for the same benefits available to native-born Americans. A range of benefits are also available to those admitted as refugees or approved for asylum, under the assumption that they have suffered trauma that may make it difficult for them to support themselves immediately upon arrival. All foreign-born residents, even those in the United States without authorization, can enroll their children in public K–12 schools and be treated for emergency medical needs.

Immigrants Prefer Work

Immigrants come to America today to build a better life through work, not welfare, just as they have throughout American history. We can see evidence of this in their labor-force participation rates as well as their gravitation toward states that offer the best prospects for employment, not welfare benefits.

The typical foreign-born adult resident of the United States today is more likely to participate in the work force than the typical native-born American. According to the U.S. Department of Labor (2011),
the labor-force participation rate of the foreign-born in 2010 was 67.9 percent, compared to the native-born rate of 64.1 percent. The gap was especially high among men. The labor-force participation rate of foreign-born men in 2010 was 80.1 percent, a full 10 percentage points higher than the rate among native-born men.

Labor-force participation rates were highest of all among unauthorized male immigrants in the United States. According to estimates by Jeffrey Passell (2006) of the Pew Hispanic Center, 94 percent of illegal immigrant men were in the labor force in the mid-2000s. This almost universal propensity to work among undocumented men partly reflects the fact of U.S. law that becoming a ward of the state is simply not an option. But it primarily reflects the fact that the low-skilled, predominantly Hispanic immigrants who enter the United States illegally do so for one overriding purpose—to earn money in the private economy.

The work ethic of immigrants reveals itself further by the kind of states they gravitate to. If we consider changes in the foreign-born populations in individual states, for example, we can see that the largest gains have generally been in states that are relatively stingy in offering public assistance. Journalist Jason Riley, in his book Let Them In, noted that many of the states that have seen the largest increases in their immigrant populations in the past decade are also states with relatively low social spending (Riley 2008: 108).

Comparing changes in immigrant population since 2000 to levels of social spending confirms Riley’s thesis. The 10 states with the largest percentage increase in foreign-born population between 2000 and 2009 spent far less on public assistance per capita in 2009 compared to the 10 states with the slowest-growing foreign-born populations—$35 vs. $166 (see Table 1). In the 10 states with the lowest per capita spending on public assistance, the immigrant population grew 31 percent between 2000 and 2009; in the 10 states with the highest per capita spending on public assistance, the foreign-born population grew 13 percent (U.S. Census 2011, NASBO 2010: 33). If immigrants were primarily concerned with collecting welfare, they would not be flocking to such states as Kentucky, Tennessee, North Carolina, South Carolina, and Georgia. Instead, they would be drawn to such states as Michigan, Rhode Island, and Vermont, which in fact have seen very slow growth in their immigrant populations.
Undocumented immigrants are even more likely to self-select states with below-average social spending. Between 2000 and 2009, the number of unauthorized immigrants in the low-spending states grew by a net 855,000, or 35 percent. In the high-spending states, the population grew by 385,000, or 11 percent (U.S. Census 2011; NASBO 2010: 33; Passel and Cohn 2011). One possible reason why unauthorized immigrants are even less drawn to high-welfare-spending states is that, unlike immigrants who have been naturalized, they are not eligible for any of the standard welfare programs. A second reason is that illegal immigrants are less likely to be well-educated and thus are not as attracted as more highly skilled immigrants to higher-income urban centers in such states as New York, Illinois, and California. The higher-skilled immigrants gravitate to those states, not because of the higher social spending, but because of the higher rewards for skilled labor.

Despite the concerns about immigration and a welfare state, the evidence indicates that what attracts the foreign-born to the United States is economic opportunity. And that is good news, not bad news, for native-born taxpayers.
Measuring the Fiscal Impact of Immigration

Immigrants do impose certain costs on governments at all levels, just as native-born Americans do. The argument is over whether immigrants as a population are a net fiscal cost to the United States or a net fiscal gain. The question is a complicated one and prone to misunderstanding and misuse.

A major challenge to measuring the fiscal cost of immigration is that it is a multigenerational phenomenon. Immigrants to the United States produce children, and those children create front-loaded costs for the government-run school systems in states where immigrant families locate. Those second-generation immigrants, almost all of them U.S. citizens by birth, then grow up to become taxpayers for decades while they are in the work force. Any truly comprehensive study of the fiscal impact of immigration must take into account the long-term as well as the short-term effects.

The most thorough and authoritative study of the fiscal impact of immigration was published by the National Research Council in 1997. Although the study is more than a decade old, it provides a valuable framework for thinking about how to measure the fiscal impact of immigration, and its findings still provide a useful benchmark.

Titled *The New Americans: Economic, Demographic, and Fiscal Effects of Immigration*, the NRC (1997) study was originally requested by the Commission on Immigration Reform (the Jordan Commission). A distinguished team of economists examined all the major facets of immigration, including its annual and future fiscal impact. Among its major findings:

- Immigrants and their descendants represent a net fiscal gain for the United States. The typical immigrant and all of his or her descendants represent a positive $80,000 fiscal gain to the government in terms of net present value. An immigrant with more than a high school education (plus descendants) represents a $198,000 fiscal gain, one with a high school diploma a $51,000 gain, and one with less than a high-school education a $13,000 loss (NRC 1997: 334).

- While the typical immigrant is less well-educated than the typical native-born American, the children of immigrants are educationally upwardly mobile. Their better-educated immigrant children earn more and pay more in taxes, which helps to
defray the cost of their immigrant parents through retirement. “Taxpaying children overlap the life cycles of their immigrant parents and help to pay the public costs they impose as they age” (NRC 1997: 350).

- The up-front fiscal cost of the immigrants is not because they consume more government services than the native born but because they pay less taxes. “The most striking difference between immigrants and natives is not in benefits received, but rather in taxes paid. Because immigrants on average have less education, at each age they earn less and pay substantially lower taxes, of all kinds and to all levels of government” (NRC 1997: 349).

- State and local governments bear the up-front costs of immigration, primarily because of the demand for education and other programs aimed at the young. The federal government benefits in the near and medium term because its major programs, including Social Security and Medicare, are aimed at the elderly.

- Immigrants help to lower the per capita cost of such public goods as national defense, basic research, and interest payments on the existing national debt. At the same time, immigrants add to the congestion costs of roads, sewers, police and fire departments, libraries, and airports.

- Because they tend to arrive at the beginning of their working years, immigrants have a modestly positive effect on federal retirement programs such as Social Security. Immigrants slow the decline in the ratio of workers per retiree and prolong the actuarial solvency of Social Security and Medicaid.

- In summary, “The average fiscal impact of immigrants under the baseline assumptions is positive in part because they tend to arrive at young working ages, in part because their descendants are expected to have higher skills and incomes, in part because they pay taxes for some items, such as national defense and interest on the federal debt, for which they do not impose costs, and in part because they will help to pay the public costs of the aging baby-boom generations” (NRC 1997: 353).

More recent data and studies on government education, health care, and retirement programs have generally confirmed the NRC findings.
One of the most visible costs of immigration in the eyes of many people is public education. Access to public education is guaranteed to the children of immigrants, including the children of illegal immigrants who may themselves be in the country illegally. Critics of immigration see the cost of educating these first- and second-generation immigrants as one of the biggest costs imposed on society.

When weighing government spending to educate immigrants and their children, three factors are often overlooked in public discourse. The first factor is that immigrant children grow up to be citizen taxpayers. In this way, the education of immigrant children really is an investment that helps to raise their productivity, incomes, and tax payments as adults.

The NRC study estimated that the fiscal balance of the descendants of immigrants was positive whatever the educational attainment of the original, first-generation immigrants. That means that whatever the up-front cost of educating the children of immigrants, the return to taxpayers is strongly positive when discounted to the present. And taxpayers do not need to wait for decades for the return: As the NRC study notes, “[M]uch of the impact of descendants is actually experienced during the lifetime of the immigrants” (NRC 1997: 334).

The second factor that must be considered is that immigration has not caused an expensive bulge in the number of children enrolled in public K–12 schools on a national or state level. Immigration has helped to offset the demographic decline in native-born birth rates but not enough to cause a relative increase in the school-age population.

The share of the U.S. population enrolled in K–12 public schools peaked when the Baby Boomers were moving through the system from the 1950s through the 1970s. In 1970, almost a quarter of the U.S. population—22.6 percent—were K–12 students enrolled in public schools. By 1980, that share had fallen to 18.1 percent and by 1990 to 16.6 percent. Since then, despite the increase in legal and illegal immigrant inflows, the share of the population in the public schools rose only slightly to 17.2 percent in 1999 before drifting downward to a new low of 16.2 percent in the 2008–09 school year (U.S. Census 2011; U.S. Department of Education
2011: Tables 35 and 36). Even in states where immigration from Latin America has been especially heavy, the pattern has been the same. In Texas, Arizona, Georgia, and California, for example, public K–12 school enrollment fell sharply from the Baby-Boom-driven peak in 1970 to 1990, and has not risen much if any since then, as shown in Figure 1. Immigration has not caused a swelling of the school-age population or a necessary rise in the burden of educating them in public schools.

Immigrant children have not been the primary cause of higher per pupil spending on public education. Children from immigrant homes do impose extra costs on the educational system to the extent that they require remedial English-language instruction. The share of K–12 students who are classified as “English-language learners (ELL)” has been rising in recent years to 9 percent (Swanson 2009: 4). The federal government allocated $671 million to Title III programs for ELL students in fiscal year 2009, with states spending a similar amount per student (Swanson 2009: 43).

Those costs are real but modest in the context of total spending for K–12 public education at the federal, state and local level. According to a study by the liberal Economic Policy Institute,
spending on bilingual education accounts for less than 2 percent of overall primary and secondary education spending, and that share has been stable over time. The biggest drivers of increased educational spending, according to the study, are special education and administrative overhead, neither of which is connected to immigration (Alnso and Rothstein 2010).

A third factor that needs to be considered when analyzing immigration and education spending is the extent to which immigration shifts educational costs to other countries. When an immigrant arrives in the United States as an adult or as a school-age child, the amount of education they have already received represents an investment in human capital that has already been paid for. An immigrant who arrives in his or her 20s with the equivalent of a high-school education represents a worker whose secondary education has been financed by a foreign government or private individuals, not U.S. taxpayers. A native-born American with a public-high-school education, by comparison, would have cost U.S. taxpayers about $120,000 in real dollars to educate from kindergarten through graduation (U.S. Department of Education 2011: Table 190). Of course, the quality of the immigrant’s education may differ, and he or she may require further education in English and other culturally specific areas, which do represent an additional cost, but the savings to U.S. taxpayers would still be significant.

**Health Care**

Spending on immigrant health care is difficult to quantify. Most of the political controversy centers on spending on emergency-room care for unauthorized immigrants and their families. Since most unauthorized immigrants are low-skilled, low-paid workers without health insurance, much of the cost of their health care is indeed paid for by taxpayers. Even here, the evidence points to relatively modest costs that are not a major driver of escalating health care costs nationwide.

Anecdotal evidence exists of strains on local hospital emergency rooms in areas where low-skilled, unauthorized immigrants have congregated. But nationwide the evidence indicates that immigrants actually consume less health care per capita because they are more likely to be younger and healthier than the native-born population. Unauthorized immigrants are more likely not to be insured (Passel and Cohn 2009), but there is no evidence that they are imposing significant costs on the overall health care system.
A study by the Rand Corporation in 2006 concluded that immigrants accounted for a disproportionately smaller share of nationwide spending on health care than native-born Americans. The study estimated that foreign-born residents, including undocumented immigrants, accounted for 8.5 percent of health care spending nationwide, while accounting for 13 percent of the total population. Undocumented immigrants imposed 1.5 percent of medical costs while accounting for 3.2 percent of the population. The authors concluded, “Foreign-born residents use less funding from public insurers (such as Medicare and Medicaid) and pay more out-of-pocket costs for health care than do native-born residents—a pattern that is even more pronounced for undocumented immigrants” (Rand 2006).

The U.S. health care system faces a number of fundamental problems, but immigration has not proven to be an undue burden on the system or on American taxpayers.

**Social Security**

Immigration has a modestly positive effect on federal old-age entitlement programs. Immigrants tend to arrive at the beginning of their working years, so they pay into the system immediately but do not collect benefits for decades into the future, if at all. A surprisingly large share of illegal immigrants pays Social Security taxes but are ineligible to ever collect benefits.

According to the 2011 Social Security Trustees report, an increase in net immigration by 300,000 per year extends the solvency of the system by about one additional year. An increase in immigration of that magnitude, which would represent about a 25 percent increase in current net immigration, would lower the cost of funding the system by 0.25 percent of the nation’s taxable payroll, from 16.25 percent to 16.00 percent (SSA 2011). By slowing the long-term decline in the ratio of workers to retirees, immigration helps to maintain the viability of the federal government’s main retirement program.

Ironically, illegal immigration may be even more of a net plus to the Social Security system than legal immigration. Because of their unauthorized status, illegal immigrants are ineligible to receive benefits, no matter how many years they work inside the United States. And despite the popular perception that they do not pay taxes, the Social Security Administration itself estimates that about three-quarters of unauthorized immigrants in the work force actually pay into the system albeit through false accounts (Porter 2005).
The Social Security system routinely collects billions of dollars a year in payroll taxes from accounts that it cannot match with an eligible recipient. Such collections are accounted to the “Earnings Suspense File,” which keeps a running tab of payroll taxes collected which cannot be matched to the earnings record of any individual worker. About 4 percent of all Social Security accounts end up assigned to the ESF (LaCanfora 2011: 10), which roughly matches the illegal immigrant share of the U.S. labor force. According to Stephen C. Goss, the chief actuary of the Social Security Administration, the ESF has accumulated a total of $120 billion to $240 billion in collections from unauthorized workers who will probably never reclaim a dime of those taxes in benefits (Schumacher-Matos 2010).

Immigration is not all gravy for the Social Security system. Over the long run, lower-skilled, lower-paid immigrants who enter the country legally or who become legal through immigration reform will be able to collect more in benefits than they pay in taxes because of the progressive nature of the system (Biggs 2010). In a 2005 report, the Social Security Advisory Board concluded that it “does not view immigration as a panacea—or free lunch—for saving Social Security” (Feinleib and Warner 2005). At the same time, there is no evidence that immigration has imposed or will impose a burden on the single largest income-distribution program of the American welfare state.

Evidence from the States

While the overall impact of immigration is favorable to taxpayers, the impact on different levels of government is uneven. The federal government tends to do well from immigration because most of its social spending is aimed at pensions and health care for older residents. State and local governments tend to bear the up-front costs of immigration because much of their spending, primarily on education, is aimed at families with children.

The 1997 National Research Council study determined that the typical immigrant and descendants represent an $80,000 fiscal gain to the government in terms of net present value. But that gain divides into a positive $105,000 fiscal impact for the federal government and a negative $25,000 impact on the state and local level (NRC 1997: 337). That means state and local governments never
recoup the fiscal losses from the services they provide to immigrant families and their descendants. This does not mean, however, that immigration is a net loss for states and localities in broad economic terms.

A number of state-focused studies have determined that immigration, including low-skilled immigration, does indeed impose net fiscal losses on state and local units of government, but that those losses are more than offset by gains to economic output.

One of the most comprehensive state-based studies was issued in 2006 by the office of the Texas Comptroller (Strayhorn 2006). Titled “Undocumented Immigrants in Texas: A Financial Analysis of the Impact to the State Budget and Economy,” the report attempted to measure the taxes paid by illegal immigrants, the costs they imposed on state and local units of government through spending for education, health care, and incarceration, and the overall impact of unauthorized workers to the state’s economy.

Consistent with other state-based studies, the Texas comptroller’s report found that unauthorized immigrants do impose up-front costs on local units of government, but that they are net contributors at the state level and that their overall impact of the Texas economy is positive. Specifically, unauthorized immigrants in fiscal year 2005 paid a total of $2.09 billion in taxes at the state and local level, while consuming $2.60 billion in services (Strayhorn 2006: 20). Education was the main expenditure on the state level, and health care on the local level. Thus the net fiscal cost for state and local taxpayers in Texas from illegal immigration that year was $504 million.

The fiscal cost, however, was more than offset by the boost to the size of the Texas economy, another finding consistent with other state studies. The Texas comptroller’s study used a general equilibrium model known as the Regional Economic Model Inc., which then calculated the impact on the state’s economy if the 1.4 to 1.6 undocumented immigrants estimated to be in Texas in March 2005 were removed from the state. The model found that the resulting drop in the state’s labor force would cause wages of remaining workers to rise slightly—by less than 1 percent. But the higher wages caused by a tightening labor market would make producers in the state less competitive, resulting in a modest decline in the value of the state’s exports. The state’s economy would shrink by 2.1 percent or $17.7 billion (Strayhorn 2006: 17).
The study concluded that, “relative to the rest of the world the cost of production in Texas is higher [without the undocumented immigrants], making our goods less competitive in the international marketplace and decreasing the size of the Texas economy” (Strayhorn 2006: 18).

A 2006 study by the Kenan Institute of Private Enterprise at the University of North Carolina at Chapel Hill found that Hispanic immigrants in the state, many of them there without authorization, had indeed imposed a net cost on state government of $61 million. This was not a large amount compared to the $9 billion in additional gross state product attributable to the immigrants (Kasarda and Johnson 2006). The study found that in North Carolina, as in Texas, the immigrants had contributed to the cost competitiveness of a number of key industries. Studies in South Carolina (Woodward 2006), Arizona (Gans 2007), and other states have reached similar conclusions.

Two recent studies of the nationwide impact of immigration reform for lower-skilled workers reinforce the finding of the state-based studies. In a study for the Cato Institute, Dixon and Rimmer (2009) found that, while expanding the number of low-skilled immigrants admitted legally would impose a fiscal burden on American households, that burden would be dwarfed by gains in household income. Native-born workers gain primarily from the more affordable provision of goods and services and from what the authors call the “occupation-mix effect”—the opening of job opportunities for middle-class workers made possible by the complementary presence of more low-skilled workers. A study for the Center for American Progress (Hinojosa-Ojeda 2010) also found income gains far exceeding fiscal costs.

If Congress wants to more equitably share the fiscal benefits of immigration, it could distribute funds to states and localities based on the impact of immigration on health and education spending. This need not, and should not, require an overall increase in government spending and taxation, but merely a transfer of resources from the federal level, where immigration represents a net fiscal gain, to state and local governments, where it often imposes a net fiscal loss. Such an intergovernmental transfer may help to blunt political opposition to immigration and thus allow the nation to enjoy the overall economic benefits of a more open immigration policy.
A Wall of Separation

For those concerned about the fiscal impact of immigration, the goal should be to wall off the welfare state, not our country. As far as constitutionally possible, Congress and the states should deny welfare payments to noncitizen immigrants. This would be good for the immigrants because they could more easily avoid the disincentives to work and family formation caused by welfare payments. It would be good for U.S. taxpayers because it would reduce demand for welfare spending. And it would be good for the U.S. economy because it would remove one of the more potent political arguments against expanded legal immigration.

References


Immigration and the Welfare State


