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Immigrants Are Makers, Not Takers



Immigration activists hold hands in front of Freedom Tower in downtown Miami, Monday, January 28, 2013. Photo: AP/Alan Diaz.

With immigration reform heating up in Congress and the White House putting its muscle behind legislative action, immigration opponents are already campaigning against common-sense reforms. Their current line of attack is an unsubstantiated claim that legalizing the 11 million undocumented immigrants living in the United States will be too costly for our nation. Playing to ignorant prejudice, these groups falsely suggest that immigrants are “takers”—people who use more public benefits than other groups—and that as a result, legalization would cost the United States trillions of dollars.

Mainstream economists have thoroughly debunked this general stereotype of immigrants as takers, finding that immigrants are a net positive for the economy and pay more into the system than they take out. In fact, immigrants’ contributions have also played a key role in prolonging the solvency of the Social Security Trust Fund. And the truth is that the cost-benefit analyses that immigration restrictionists have used to make their wild cost projections simply are not well-rounded or accurate.

Immigrants are in fact “makers,” not takers. Below, we demonstrate the clear evidence that proves this point and shoots down some of the recycled claims about the cost of immigrants to the United States.

Immigrants are a net positive to the economy

Here are just a few examples of how immigrants pay more into the U.S. economy than they take out.

Large GDP gains and tax revenue from legalization

Research by UCLA Professor Raúl Hinojosa-Ojeda shows that legalizing our nation’s undocumented immigrant population and reforming our legal immigration system would add a cumulative \$1.5 trillion to U.S. GDP over a decade. These big gains occur because legalized workers earn higher wages than undocumented workers, and they use those wages to buy things such as houses, cars, phones, and clothing. As more money flows through the U.S. economy, businesses grow to meet the demand for more goods and services, and more jobs and economic value are created. Hinojosa-Ojeda found that the tax benefits alone from legalization would be between \$4.5 billion and \$5.4 billion in the first three years.

Big economic boost from the DREAM Act

Research by Notre Dame economists Juan Carlos Guzmán and Raúl Jara finds that passing the DREAM Act would add \$329 billion to the U.S. economy by 2030. The DREAM Act provides a double boost to the economy: First, DREAMers will be able to work legally (generally at higher wages), and second, because of the requirements to complete high school and some college or military service, they will have more education and training, which translates into better and higher-paying jobs. All of these extra wages circulate through the economy, supporting new job creation for the native born as well.

Naturalized citizens earn even more

A large body of literature illustrates that naturalized citizens are more economically beneficial than even legal permanent residents. In the United States the University of Southern California’s Manuel Pastor estimated that naturalized citizens earn between 8 percent and 11 percent higher wages after naturalization. Pastor concludes that if even half of those who are currently eligible—the Department of Homeland Security estimates that there are more than 8.5 million people in this category—became citizens, it would add between \$21 billion and \$45 billion to the U.S. economy over five years.

Even undocumented immigrants pay taxes

Immigrants—even the undocumented—pay a significant amount of money in taxes each year. A 2011 study by the Institute for Taxation and Economic Policy found that undocumented immigrants paid \$11.2 billion in state and local taxes in 2010 alone, adding a significant amount of money to help state and local finances. It is important to note that immigrants—even legal immigrants—are barred from most social services, meaning that they pay to support benefits they cannot receive.

Immigrants help keep Social Security solvent

According to the National Foundation for American Policy, immigrants will add a net of \$611 billion to the Social Security system over the next 75 years. Immigrants are a key driver of keeping the Social Security Trust Fund solvent, and Stuart Anderson of the National Foundation for American Policy finds that cutting off immigration to the country would increase the size of the Social Security deficit by 31 percent over 50 years.

Snapshot accounting leads to faulty conclusions

Even with these positive economic benefits, though, anti-immigrant groups continue to insist that immigrants take more out of the system than they pay into it. Two studies in particular have received attention lately: a 2007 study by the Heritage Foundation, which found that legalization would cost \$2.6 trillion; and a 2011 study by the Center for Immigration Studies, which concluded that Hispanic immigrants use more public benefits than other groups.

Both studies rely on a snapshot of immigrants frozen in time to get to their calculations. Heritage focuses only on immigrants as retirees without taking into account the money they pay into the system during their working years. The Center for Immigration Studies focuses on families with children without taking into account the taxes their children will pay over their lifetime. Each approach is predicated on faulty assumptions.

Heritage Foundation study: A misleading snapshot of immigrant life

In an attention-grabbing headline from 2007, the Heritage Foundation's Robert Rector argued that legalizing undocumented immigrants would cost taxpayers "at least \$2.6 trillion." The message was deceptively simple: At some point in the future, the legalized immigrants will hit age 67 and will retire. Once retired, these immigrants will cost taxpayers a significant amount of money by using programs such as Social Security and Medicare—a figure the author estimated to be roughly \$17,000 per year for an average of 18 years. Multiply the ensuing \$306,000 by the 8.5 million legalized adults whom Rector expects to reach retirement age, and that's how you get \$2.6 trillion.

The missing context: Immigrants pay into the system long before retiring

The problem with such magical thinking is that Rector failed to provide basic context for his conclusions: Most importantly, he only looks at the costs of immigrants once they retire and does not take into account any taxes they would have paid into the system as workers preretirement. All retirees use more in services than they contribute in taxes during retirement years, but the explicit bargain of programs such as Social Security is that you pay into the system over your lifetime and then take from it once you retire.

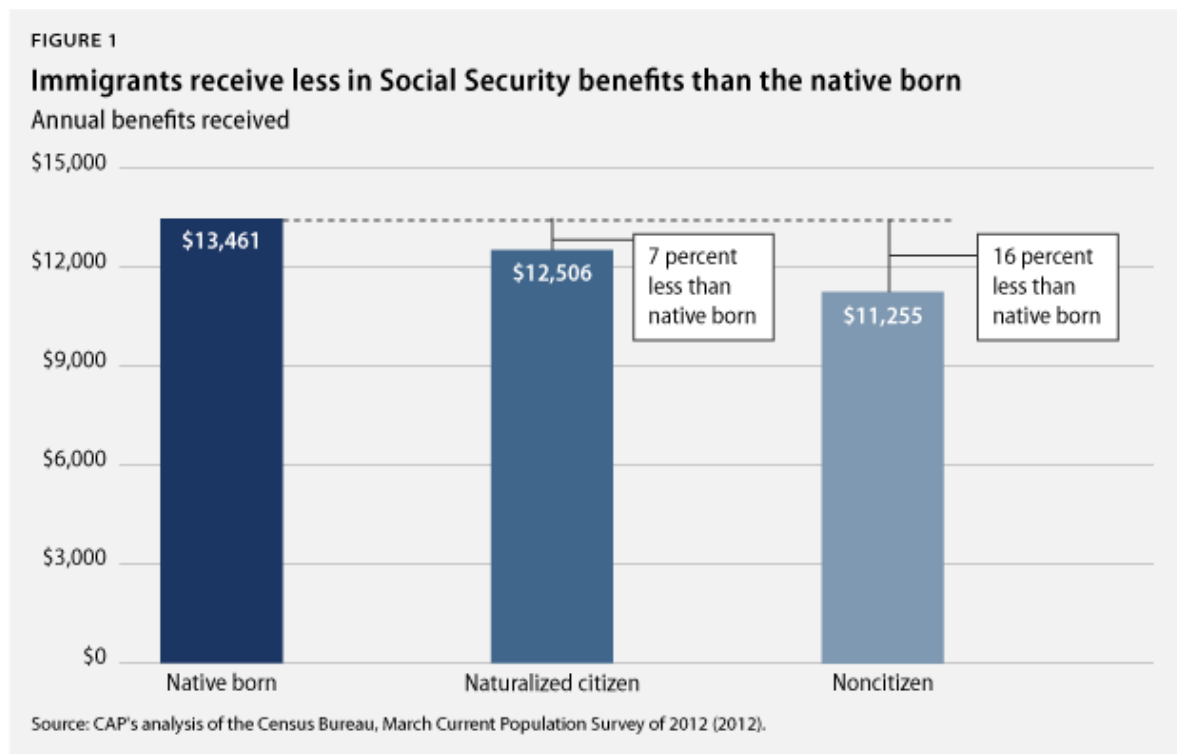
In addition to the fact that the study only considers a portion of the lifetime contributions—those made during retirement—of immigrants, Rector incorrectly assesses the fiscal cost of immigrants during retirement by, for example, assuming that all undocumented immigrants lack a high school education. Even if such an outlandish claim were true—and according to the Pew Hispanic Center, only 49 percent of undocumented immigrants lack a high school degree—it is almost certain that a portion of the immigrant community would gain more

education after legalization, leading to higher wages and thus higher tax contributions to Social Security and Medicare.

Rector also claims that immigrant retirees will impose a net cost of \$17,000 per year, but provides no explanation or citation for how he came to this estimate. Without knowing how he came up with that figure, it is impossible to know if that is even the correct annual net fiscal impact of immigrant retirees, let alone if it is offset by payments into the system over the working life of the immigrants.

The bottom line: Immigrants receive less in Social Security than the native born

Finally, the Heritage study fails to acknowledge that research shows that immigrant retirees are less likely to use the benefits than native-citizen retirees. Demographers James P. Smith and Barry Edmonston, for example, found that immigrants receive less in Social Security and Medicare benefits than their descendants in the second generation and the native-born population. And an analysis of the 2012 March Current Population Survey data also indicates that immigrants who receive Social Security get less in benefits than native-born recipients. (see Figure 1) To insinuate that immigrant retirees will be an added burden to the American taxpayer is therefore simply false.



Center for Immigration Studies report: Erroneous comparisons hide the fact that immigrants are no more likely to use social services than the native born

The Center for Immigration Studies released a report in 2011 concluding that “57 percent of households headed by an immigrant (legal and illegal) with children (under 18) used at

least one welfare program, compared to 39 percent for native households with children.” The report attempted to paint immigrants—and Hispanic immigrants in particular—as a burden on U.S. social services. This could not be further from the truth.

The study reaches these conclusions by manipulating the data analysis. The study relied on, for example, an unconventionally broad definition of welfare, which included programs for children such as free and reduced-price school lunches. No other comparable study on welfare usage includes such programs in their calculations.

Comparing apples to oranges: Report fails to control for income level and household composition

The Center for Immigration Studies also obfuscates its findings by using a faulty unit for comparison. Instead of comparing all household users of welfare benefits, it limits its analysis to families with children. This arbitrary data restriction eliminates the possibility of accurately comparing—at the household level—welfare-participation rates between immigrants and natives. If you are going to compare households, you must compare all households.

But most troublesome is the fact that the Center for Immigration Studies compares immigrant and native-born welfare rates without controlling for differences in income levels. Comparing welfare-participation rates without accounting for differences in income level is akin to comparing the welfare-participation rates of a highly developed country to that of an underdeveloped country—it is clear that an underdeveloped country would have a greater number of welfare users.

If one controls for income level and considers all households, the story of immigrants being a drain on social programs disappears.

The bottom line: No difference in welfare usage among the native and foreign born

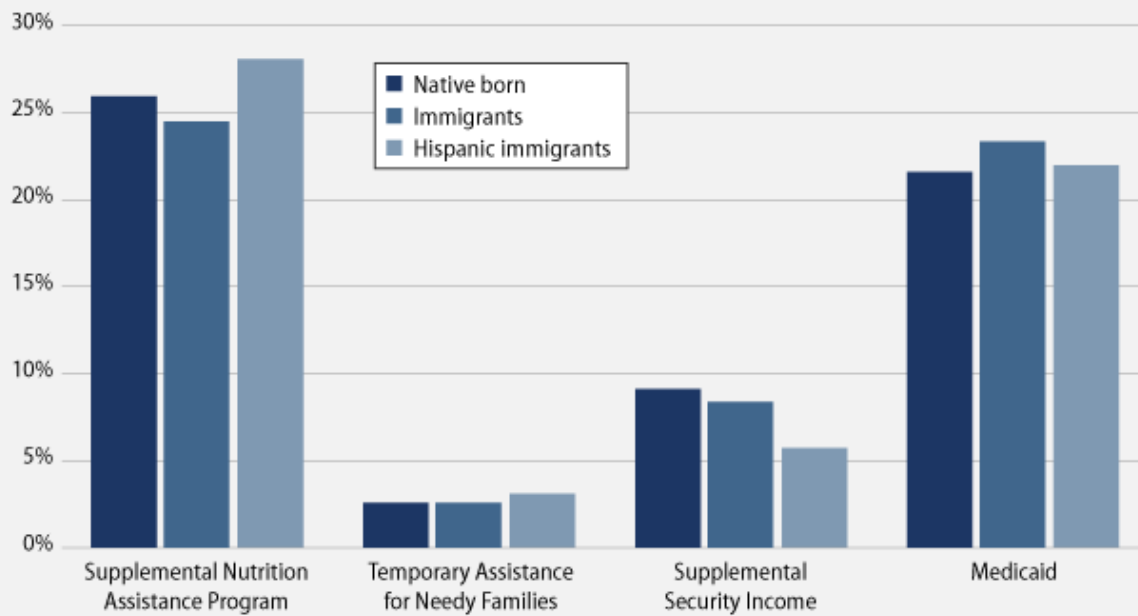
Demographers Randy Capps, Michael Fix, and Everett Henderson, for example, compared welfare-participation rates of legal permanent resident immigrants to the native born. When controlling for income, they found that immigrants had similar—if not lower—participation rates than natives in the three main social programs: welfare, food stamps, and Medicaid. At the 200 percent poverty line—a common threshold for low-income households—32 percent of native families received food stamps, compared to 22 percent of naturalized-citizen immigrant families.

An analysis of the 2012 March Current Population Survey data that controls for income and includes all households reveals that the results of Passel and Fix’s study still hold true today—immigrants use social programs such as Medicaid and Supplemental Security Income at similar rates to native households. (see Figure 2)

FIGURE 2

Immigrants are not more likely to use social services than the native born

Percentage of households at 200 percent of the poverty line enrolled in programs



Source: CAP's analysis of the Census Bureau, March Current Population Survey of 2012 (2012).

Conclusion

Over the next few weeks, the House and Senate will hold hearings on immigration reform, and no doubt anti-immigrant groups will increasingly characterize immigrants as “takers.” Americans should not be fooled, though.

The facts are clear: Immigrants are not a drain on the U.S. economy. Immigrants are no more dependent on welfare programs than the native born. Legalization would not cost U.S. taxpayers trillions of dollars. The only thing the United States can't afford is to have the efforts of Congress and the president derailed by anti-immigrant groups that are dedicated to hiding the truth: Immigrants are makers, not takers.