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Walls or Welcome Mats? Immigration and the Public Treasury

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Summary
Advocates of restrictive immigration policies often claim that immigrants impose a net burden on the public treasury. The most comprehensive and authoritative study of the fiscal effects of immigration in the U.S. finds, however, that there is a net positive effect. If policymakers are concerned that less skilled immigrants may pose some risk of a fiscal burden, then restricting immigrant access to means-tested public benefits would be a better response than denying them admission. A path to citizenship for these immigrants need not entail a fiscal burden as long as their access to these public benefits and citizenship is sufficiently delayed.

Keywords
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Walls or Welcome Mats? Immigration and the Public Treasury *(Part two of a two-part series)*

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As the presidential campaigns in the United States approach the Democratic and Republican National Conventions this summer, immigration policy remains a deeply divisive issue.

The Republican candidate Donald Trump promises to build a border wall between the United States and Mexico, which he claims Mexico will fund.[1] He has also vowed to deport all 11 million unauthorized immigrants in the United States.[2] Results from a March 2016 survey from the Public Religion Research Institute, however, suggest that while this campaign rhetoric may appeal to older Republicans, it may have limited appeal for other Americans.[3] A 62-percent majority of Americans, and 63 percent of Republicans between the ages of 18 and 29, support a path to citizenship for unauthorized immigrants currently living here. Only 19 percent of Americans want unauthorized immigrants deported. Half of all Americans, and a slim majority (51 percent) of Republicans between the ages of 18 and 29, believe that immigration strengthens American society, as opposed to 34 percent of Americans and 36 percent of these young Republicans who view immigration as a threat to American customs and values. Thus, polling indicates that restrictive immigration proposals do not align with the preferences of most Americans, including the young voters who represent the future of the Republican Party.

SUMMARY

- Advocates of restrictive immigration policies often claim that immigrants impose a net burden on the public treasury. The most comprehensive and authoritative study of the fiscal effects of immigration in the U.S. finds, however, that there is a net positive effect.
- Congress could increase the economic welfare of U.S. natives by liberalizing our immigration restrictions. The U.S. Senate took a step in this direction in June 2013 by passing a bipartisan comprehensive immigration reform bill (S. 744), but the House has failed to act on it.
- If some in Congress are concerned that less skilled immigrants may pose some risk of a fiscal burden, then restricting immigrant access to means-tested public benefits would be a better response than denying them admission. A path to citizenship for these immigrants need not entail a fiscal burden as long as their access to these public benefits and citizenship is sufficiently delayed.
- An expanded guest worker program could include a path to citizenship through a merit-based point system like that proposed in S. 744 for alien workers on W visas. Congress could grant legalized immigrants a path to citizenship through the same system. If this system gave these immigrants a realistic chance of eventually obtaining green cards, then such a compromise might allow comprehensive immigration reform to emerge from Congress.

As discussed in Part I of this series, *Immigration and the Labor Market* (http://bit.ly/IssueBriefV4N4), economists generally agree that restrictive immigration proposals would harm the U.S. economy and deprive natives of the economic benefits of immigrant labor. In this issue brief, Part II, I will turn to the impact of immigration on the public sector.[4] Here immigrants confer economic benefits on U.S. natives by expanding the tax base and paying taxes, but they also impose costs when they receive transfers from the public treasury or otherwise increase the costs of public programs. This observation raises the question asked by the economist George Borjas: "Do immigrants pay their way in the welfare state?"[5]

THE FISCAL IMPACT OF IMMIGRATION

Advocates of restrictive immigration policies often claim that immigrants impose a net burden on the public treasury, pointing to studies that add up the fiscal costs and fiscal benefits currently generated by immigrant-headed households at one particular point in time. These crude calculations include the costs imposed by the children of immigrants on public schools, while excluding the benefits that children who are born U.S. citizens will generate when they grow up, start their own households, work, and pay taxes. A proper accounting of the total fiscal impact of immigration would avoid this bias by including not only the fiscal impact of each immigrant over the entire life cycle of that immigrant but also the fiscal impact expected from all the descendants of that immigrant. After all, but for the admission of the immigrant, none of those descendants would be present.

In 1997, the National Research Council (NRC) conducted the first study to attempt this comprehensive calculation of the fiscal impact of immigration, including projections regarding the education, income, and fiscal effects of future generations.[6] Thus, this study represents a quantum leap in sophistication beyond any prior study of the fiscal impact of immigrants. The NRC study remains the most careful, thorough, and complete analysis of the fiscal effects of immigration in the United States.

The NRC finds that the expected net effect of the descendants of immigrants on the public treasury is positive. These future generations tend to be better educated, have higher incomes, and pay more taxes than their immigrant forebears. Taking the future fiscal impact of these generations into account, under the most plausible set of assumptions, the NRC finds that the average recent immigrant in 1996 has a positive fiscal impact of $80,000 in net present value. In fact, an updated analysis based on more recent data yields an even larger net benefit, estimating that the average immigrant in 1998 has a positive fiscal impact of $99,000 in net present value.[7]

The NRC study also found that immigrants with more education tended to earn more income, pay more in taxes, and be less likely to qualify for means-tested public benefits than those with less education. Thus, the expected fiscal impact of any immigrant depends in part on that immigrant's level of education: The average immigrant with more than a high-school education has a positive fiscal impact of $198,000 in net present value; the average immigrant with only a high-school education has a positive fiscal impact of $51,000 in net present value; and the average immigrant with less than a high-school education has a modest negative fiscal impact of -$13,000 in net present value.

Another characteristic that affects an immigrant's fiscal impact is age at the time of entry. The younger

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1 Trump Campaign, https://www.donaldjtrump.com/positions/immigration-reform.

2 Cable News Network, http://www.cnn.com/2015/11/11/politics/donald-trump-deportation-force-debate-immigration/.

3 Public Religion Research Institute, http://publicreligion.org/newsroom/2016/03/news-release-republicans-face-generational-divide-on-immigration-majority-of-young-republicans-believe-immigrants-strengthen-u-s-support-path-to-citizenship/#.VwGBYMc04_U.

4 This brief draws upon my discussion in Howard F. Chang (ed.), Law and Economics of Immigration, Edward Elgar Publishing Limited, 2015. I am grateful for the assistance of Matthew Stengel in the preparation of this brief.

5 George J. Borjas (1994), "The Economics of Immigration", Journal of Economic Literature, XXXII (4), 1667-1717.

6 Panel on the Demographic and Economic Impacts of Immigration, National Research Council (1997), "The Future Fiscal Impacts of Current Immigrants", in James P. Smith and Barry Edmonston (eds), The New Americans: Economic, Demographic, and Fiscal Effects of Immigration, Chapter 7, Washington, DC: National Academy Press, 297-362.

7 Ronald Lee and Timothy Miller (2000), "Immigration, Social Security, and Broader Fiscal Impacts," American Economic Review 90 (2), 350-54.

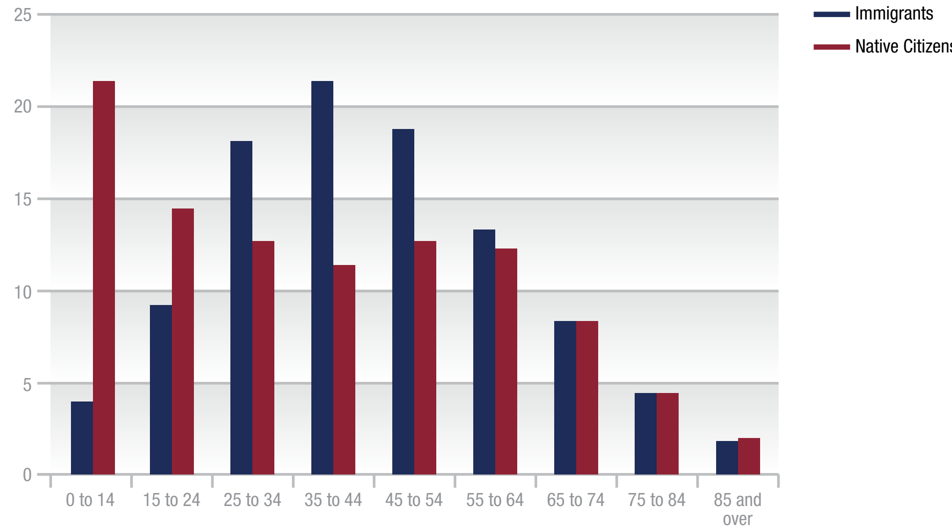
8 Howard F. Chang (1997), "Liberalized Immigration as Free Trade: Economic Welfare and the Optimal Immigration Policy", University of Pennsylvania Law Review, 145 (5), 1147-1244; Howard F. Chang (1998), "Migration as International Trade: The Economic Gains from the Liberalized

the immigrant, the more years that immigrant can spend working in the United States, and the more taxes that immigrant can pay prior to retirement. Thus, the NRC finds that even an immigrant with less than a high-school education has a positive expected fiscal impact if that immigrant enters the United States by the age of 21. Thus, the fiscal impact of immigration proves to be positive in part because immigrants tend to arrive as young workers.

Immigrants to the United States often arrive as young adults who will not participate in entitlement programs for the elderly for many years. Young workers have the most to gain by immigration because they can enjoy higher wages in the U.S. labor market over a longer period of time. As you can see from the age distribution of immigrants compared to natives in Figure 1, immigrants are disproportionately of working age.

Finally, the NRC study also reveals how the fiscal impact of immigrants is a function of the policies applied to them. In particular, the NRC studies the effect of restrictions on immigrant access to public benefits. The NRC finds that the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 improved the fiscal impact of the average immigrant in the United States by $8,000 in net present value by excluding immigrants from federal means-tested entitlement programs for five years after entry. This change in the law thereby increased the net positive impact of the average immigrant from $80,000 to $88,000 in net present value. The NRC found that this legislation had a positive expected fiscal effect for immigrants with all levels of education, regardless of the immigrant's age at arrival.

FIGURE 1: AGE DISTRIBUTION OF U.S. IMMIGRANTS AND NATIVES, 2014



Source: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplement, 2014

IMPLICATIONS FOR IMMIGRATION REFORM

For the sake of argument, let's assume that the goal of our immigration policy is to promote the economic interests of U.S. natives. After all, the interests of natives seems most relevant as a practical matter for governments of countries receiving immigrants and is also commonly thought to support restrictive immigration laws. Given the economic theory and the empirical evidence that I have reviewed, however, this objective

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Movement of Labor", UCLA Journal of International Law and Foreign Affairs 3 (2), Fall/Winter, 371-414.

9 See S. 744, 113th Congress (2013).

10 Sherrie A. Kossoudji and Deborah A. Cobb-Clark (2002): Coming out of the Shadows: Learning about Legal Status and Wages from the Legalized Population", Journal of Labor Economics, 20 (3), 598-628.

11 Congressional Budget Office (2013), The Economic Impact of S. 744, the Border Security, Economic Opportunity, and Immigration Modernization Act.

12 Alan O. Sykes (1995), "The Welfare Economics of Immigration Law: A Theoretical Survey with an Analysis of U.S. Policy," in Warren F. Schwartz (ed.), Justice in Immigration, Cambridge, UK: Cambridge University Press, 158-200.

13 8 U.S.C. sec. 1427(a).

14 8 U.S.C. sec. 1611(a).

15 Howard F. Chang (2008), "Guest Workers and Justice in a Second-Best World", University of Dayton Law Review, 34 (1), 3-14.

16 Howard F. Chang (2002), "Liberal Ideals and Political Feasibility: Guest-Worker Programs as Second-Best Policies", North Carolina Journal of International Law and Commercial Regulation, 27 (3), 465-81.

would call for more liberal admissions policies instead.[8]

If we consider our immigration laws from the perspective of economics, then the primary problem with our current admissions policies is that they are they are unduly restrictive. The United States has made it too difficult for valuable workers and taxpayers to enter the United States. Quotas severely limit the supply of visas well below the demand for these visas, creating costly backlogs that cause immigrants to wait many years for their visas. As the NRC found, the older an immigrant is at the time of entry, the less the immigrant will pay in taxes over the immigrant's remaining years in the United States, and the less favorable the fiscal impact of that immigrant. So longer backlogs make not only immigrants but also natives worse off: Long waiting periods mean that immigrants enter later in life, limiting the years during which they can contribute to our economic welfare by providing labor as workers and by paying taxes to the public treasury.

When the NRC studied the economic and fiscal effects of immigration, the NRC economists concluded that immigration produces net benefits for natives, both in the labor market and through the public sector. As I discussed in Part I of this series, economists estimate that immigrant workers add billions of dollars per year to the real income of natives in the United States by supplying their labor to our labor market. Furthermore, immigration also makes us better off by increasing tax revenues in the United States. These findings suggest that higher levels of immigration would produce even bigger benefits for the U.S. economy. So why not liberalize our restrictive quotas?

In June 2013, the U.S. Senate took a promising step in this direction by passing a comprehensive immigration reform bill, S. 744, with bipartisan support. The U.S. House of Representatives, however, has failed to act on that bill. This bill, also known as the Border Security, Economic Opportunity, and Immigration Modernization Act,[9] would not only legalize many unauthorized immigrants already in the United States but also would take several important steps to address the problem of backlogs in our current system for legal immigration. For example, the bill would provide sufficient visas to clear current backlogs within 7 years.

Unauthorized immigrants given legal status by the bill would not get green cards until those backlogs were eliminated. Legalized immigrants generally would have to spend 10 years in provisional status and would go to the back of the line for green cards, behind those waiting patiently for their legal immigration visas. Economists Sherrie Kossoudji and Deborah Cobb-Clark studied the wage impacts of the Immigration Reform and Control Act (IRCA) of 1986 and found that the legalization of previously unauthorized immigrants through IRCA led to an increase of 6 percent in their wages.[10] Citing this research, the Congressional Budget Office predicted that the Senate bill would increase tax revenues from these workers and other immigrants, thereby reducing federal budget deficits.[11]

The Senate bill would also treat spouses and children of lawful permanent resident aliens as "immediate relatives," which would exempt them from quotas entirely. Spouses and minor children of U.S. citizens can already enter as "immediate relatives" without any ceilings. The Senate bill would extend this treatment to the spouses and minor children of legal permanent residents. This solution would give priority to nuclear families and avoid backlogs for these relatives without taking immigration visas from any other categories.

The bill also would eliminate all quotas on the most skilled employment-based immigrants, including those with extraordinary ability, outstanding professors and researchers, multinational executives and managers, those with doctorate degrees, physicians, and workers who recently received advanced degrees in science, technology, engineering, or mathematics (STEM) fields from universities in the United States. These STEM immigrants also would be exempt from labor certification requirements. Furthermore, the spouses and children of employment-based immigrants would not count toward quotas, which would allow more of these immigrants to enter. These preference categories already reserve most employer-sponsored immigration visas for skilled workers with offers of employment, who are likely to contribute to the public treasury by paying income taxes and unlikely to rely on any means-tested entitlement programs.[12] Thus, liberalizing these admissions is especially likely to promote the economic welfare of natives.

Our immigration laws also impose quotas that limit the number of immigration visas available to any one country, and these quotas are completely insensitive to population and to the demand for these visas. The Senate bill would have eliminated ceilings based on the country of origin from all employment-based immigrant categories. These per country quotas have caused especially long waits for immigrants from China and India. The Senate bill would allocate these visas on a country-neutral basis instead. This reform would be even better if it also applied to family-based visas, which should also be available without discrimination based on national origin.

The Senate bill would also create a new nonimmigrant V visa for family-sponsored immigrants to enter, live in, and work in the United States while waiting for approval of their immigration visas. Thus, in the future, backlogs would not prevent the reunification of families or delay the contributions that immigrants can make to our economy through the labor market or the public treasury.

Finally, the bill would create new nonimmigrant visa programs for less skilled workers: one program for agricultural visas and another for other workers. These W visas would allow workers to enter for a 3-year period and would be renewable. These visas would also allow workers within each category to leave one employer to work for another employer registered with the program, unlike past programs which tied each guest worker to a specific employer. Freedom to leave an employer and to take employment elsewhere would give workers greater power to assert their rights against employers and thereby prevent abuses, without destroying the economic gains that natives enjoy in the labor market from employing these workers. These visas would give less skilled workers a legal alternative to illegal entry and life as an unauthorized immigrant.

From the perspective of the economic interests of natives, these guest-worker programs may also be an effective response to concerns regarding the impact of relatively unskilled alien workers on the public treasury. Through such programs, natives enjoy the benefits of these workers in the labor market but do not bear the fiscal burden of providing the full set of public benefits that these workers would receive if they had ready access to permanent residence and, ultimately, citizenship. Although immigrants can gain full access to public benefits upon naturalization, only aliens "admitted for permanent residents" may naturalize as U.S. citizens.[13] Alien workers admitted on nonimmigrant visas only are not admitted as permanent residents and are thus not eligible for most public entitlements and are not eligible to naturalize.

Our laws generally exclude not only unauthorized immigrants but also nonimmigrants, including temporary workers, from a broad range of public benefits. With only narrow exceptions, these aliens are ineligible for "any Federal public benefit."[14] Because guest-worker programs can give relatively unskilled aliens access to our labor markets without necessarily providing full access to the benefits provided to citizens, these programs may allow the most liberal admissions policies possible for these aliens without imposing a fiscal burden on natives. I have suggested that such a program could even accommodate the desire of some guest workers to remain by allowing guest workers to renew their visas for an indefinite number of multiple periods.[15] As long as the U.S. restricts their access to public benefits, they seem unlikely to impose a net fiscal burden on the public treasury.

THE PATH TO CITIZENSHIP

From the perspective of the interests of the guest workers, or from the perspective of principles of justice in a democracy, the ideal immigration policy would provide the option of lawful permanent residence and access to citizenship. To better reflect democratic ideals, we could offer a path to citizenship for guest workers who compile a record of employment and avoid criminal activity.[16] In fact, under the Senate bill, workers on W visas could apply for permanent residence through a merit-based point system, which would award two points for each year spent working lawfully in the United States up to a limit of 20 points. Thus, admission as a guest worker need not entail permanent status as an alien.

Would a path to citizenship for less skilled immigrants raise the prospect of a fiscal burden? Not necessarily: by requiring guest workers to spend years in nonimmigrant status first, we delay their access to the full set of public benefits that we provide to citizens. This delay itself would improve the fiscal impact of each immigrant. The longer the delay, the greater the improvement in the immigrant's fiscal impact. The empirical evidence presented by the NRC suggests that we could allow even less skilled immigrants to naturalize without imposing a net fiscal burden if a sufficient period with limited access to public benefits has passed. These observations would apply not only to guest workers on W visas but also to family-sponsored immigrants on V visas or to legalized immigrants with provisional status. The Senate bill would allow all of these aliens to work and pay taxes in the United States without access to specified public benefits while seeking permanent resident status.

In reality, access to citizenship is a matter of degree. Guest workers might have the opportunity to adjust status only after a short period of residence or only after a long period. We might demand a long work history or impose less stringent requirements. We could choose any point along this continuum to satisfy critics concerned about the fiscal impact of less skilled immigrants. By adjusting the points a guest worker could earn through years of work in the United States and by adjusting the total number of immigrant visas issued through this point system, we can adjust the guest worker's prospects for permanent residence and the number of years that a guest worker could expect to wait to adjust status.

In fact, the flexibility of such a points system is a virtue that might also facilitate a political compromise on a path to citizenship for unauthorized immigrants granted legal status. At least some Republicans in the House of Representatives expressed a willingness to grant legal status to unauthorized immigrants but objected to the "special" path to citizenship provided by the Senate bill. A possible compromise would allow legalized immigrants to apply for green cards through the same immigration system that is open to all prospective immigrants. If Congress were to liberalize that immigration system enough, so that enough legalized immigrants could have a realistic chance of eventually obtaining green cards, then we could have the makings of a compromise that might finally allow comprehensive immigration reform to emerge from Congress.

CONCLUSION

The most comprehensive and authoritative study of the fiscal effects of immigration in the United States finds that immigrants have a net positive effect on the public treasury. These results, together with the benefits that immigrant workers confer on natives in the labor market, suggest that the economic interests of natives would be served by more liberal admissions policies. In particular, the United States should eliminate or liberalize the quotas imposed on immigration. To the extent that the least educated immigrants may pose some risk of a fiscal burden, the best response would be to restrict access to means-tested public benefits rather than to deny such immigrants admission. Excluding these immigrants or delaying their entry needlessly sacrifices the gains that both natives and immigrants would enjoy from immigrant participation in the labor market. The comprehensive immigration reform bill passed by the Senate in 2013 would have addressed this issue through new guest worker programs and increases in legal immigration. Unfortunately, that effort has stalled in Congress, and our dysfunctional immigration system remains badly in need of liberalizing reforms.

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Howard F. Chang writes on a wide variety of subjects in the economic analysis of law, including immigration policy, international trade, and environmental protection. Professor Chang is the editor of *Law and Economics of Immigration* (2015). His scholarship has appeared in the *Yale Law Journal*, the *University of Pennsylvania Law Review*, the *Southern California Law Review*, the *Georgetown Law Journal*, the *Journal of Political Economy*, the *American Economic Review*, and the *RAND Journal of Economics*. Previously, he served on the Board of Directors of the American Law and Economics Association. Professor Chang received his bachelor's degree in Government from Harvard College, a master's degree in Public Affairs from the Woodrow Wilson School at Princeton University, his law degree from Harvard Law School, and a PhD in Economics from the Massachusetts Institute of Technology.