The Economic Realities of Immigration in the United States: Implications for Policy

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The Economic Realities of Immigration in the United States: Implications for Policy

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I. Introduction and Overview

This paper presents a discussion of economic issues regarding the recent influx of illegal immigrants into the USA and is based on a review of economic literature about the issues. It uses a set of studies to frame the economic issues in terms of the current ongoing debate regarding the benefits and costs accruing to the US economy from the upsurge in immigration. It concludes with a discussion of the political economy underlying the debates as a means for suggesting policy and or legal reform initiatives that may be warranted in light of the debates, the available analyses, and the empirical research that is available in the mainstream economic literature.

The public debates about the economic impact of immigration, particularly illegal immigration, reflect a high degree of polarization of views and opinion. The anchor for the negative perspective on the economic effects of immigration is a recent study by the Heritage Foundation. This study represents the right-wing or conservative perspective of those who think of themselves as “natives.”

The authors of the Heritage Foundation Study, assert that low-skilled immigrant families (immigrants without high school diplomas, 40% of which are undocumented) generate an annual fiscal deficit of $19,588 (per household), meaning that they receive this much more in benefits than they pay in taxes. More specifically, it is stated that households in this population group pay an average of $10,573 in taxes (including

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1 Since they are not natives in the true sense of the word, as their ancestors were not residents of the land prior to its colonization, they will be referred to as the “extant population” for the purposes of this discussion – meaning those existing prior to the influx of immigrants.

2 Rector, Robert & Kim, Christine. Heritage Special Report, The Fiscal Cost of Low-Skilled Immigrants to the U.S. Taxpayer. The Heritage Foundation, SR-14, May 21, 2007. In particular, there are 15.9 million low-skilled immigrants in the US and 4.5 million low-skilled immigrant households, which constitute 5% of the country’s population. Out of that 5%, roughly 40% are illegal immigrants. Id. Since their arguments are against all low-skilled immigrant families, it inevitably focuses on the notion of not providing for 3% of the country’s population whom are here legally. See Id. Note that “immigrants” and “low-skilled immigrants” will be used interchangeably throughout this discussion.
federal, state, and local income and property taxes as well as sales and excise taxes) and consume an average of $30,160 of government expenditures in the form of welfare benefits, education and public safety expenses.³

The premise of the argument that low-skilled immigrants contribute a net economic deficit is based on two aspects of the direct fiscal effects attributable to immigrants – taxes paid and value of public services received, such as welfare benefits.⁴ While these are particularly important considerations in the overall economic analysis, it leaves much out of the economic equation. The Heritage Foundation Study mentioned that the broader economic effects of immigration on the US economy, such as the effect on the labor market, are not taken into account because of the uncertainty in the relevant figures. Interestingly enough, however, they arbitrarily limit the positive benefits from immigrants by basing their analysis on an “estimated” 45% of immigrants whom are paid “off the books,” thus providing for a low estimate on the amount of taxes paid by immigrants.⁵ By excluding the aggregate value of the output produced by the increased labor supplied by illegal immigrants, the Heritage Foundation Study fails to count the fiscal effects of taxing the increased output in the form of personal and corporate income taxes paid by the owners and co-workers in the enterprises in which the illegal immigrants work and in the form of sales or other consumption taxes on the incremental final products and services produced with the participation of the illegal workers.

An alternative perspective on the topic is given by a National Academy of Science Study. According to the National Academy of Sciences (NAS), low-skilled immigrants provide a positive benefit to the US economy overall; the goods and services these immigrants consume as well as what they produce for their employers contribute close to $800 billion into the economy.⁶ In the NAS Study, the net effect of benefits consumed

³ Id.
⁴ See Id.
⁵ See Id.
and the taxes paid at both the federal and local levels is that immigrants generate a total fiscal benefit of $23.5 billion ($581 per capita).\(^7\)

Although the NAS analysis reveals a net fiscal deficit attributable to immigrants at the state and local level, there is net positive fiscal effect at the federal level.\(^8\) Immigrants and their concurrent descendants pay $61.5 billion ($1,520 per capita) to the state and local governments annually in the form of taxes, whereas the extant population pays $427.9 billion ($1,941 per capita) to these local governments.\(^9\) However, immigrants and their concurrent descendants cost the local and state governments $88.8 billion ($2,197 per capita) in the value of benefits received, whereas the extant population costs these governments $384.5 billion ($1,744 per capita).\(^10\) Immigrants, therefore, generate a fiscal deficit of $27.4 billion ($677 per capita) on the state and local levels.\(^11\) The state and local governments are at net positive balance from the taxes paid by the extant population because the states and local governments receive from these latter a net fiscal benefit of $43.4 billion ($197 per capita).\(^12\)

In contrast, there is no fiscal deficit associated with immigrants on a federal level. Immigrants pay the federal government $153.3 billion in taxes annually ($3,793 per capita).\(^13\) The extant population pays $1,104.3 billion in federal taxes ($5,008 per capita).\(^14\) Although immigrants do not pay as much in federal taxes as the extant population does, they cost the federal government less. They cost the government $102.5 billion ($2,535 per capita) due to benefits received, whereas the extant population costs the government $808.7 billion ($3,668 per capita).\(^15\) In neither case is there a fiscal deficit. Moreover, there is only a slight difference in the amount of money received by

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8 Id.
9 Id.
10 Id. Examples of such benefits are welfare, education and incarceration costs. Non-citizens are not eligible for many welfare benefits, “including Temporary Assistance for Needy Families, food stamps, Supplemental Security Income, and Medicaid…” Essential Worker Immigration Coalition.
12 Id.
13 Id.
14 Id.
15 Id.
the federal government from these different populations. Immigrants provide the
government with a fiscal benefit of $50.9 billion annually ($1,258 per capita) while the
extant population provides the government with a fiscal benefit of $295.5 ($1,340 per
capita).16 Furthermore, Social Security taxes that are paid by undocumented immigrants
through “fake” social security numbers end up in the Social Security Administration’s
“suspense file,” which grew by $8.5 billion in 2002 alone.17 Ironically, these unrequited
resources from undocumented workers are available within the Social Security System to
provide benefits to current recipients from the extant population and serve to postpone
the time at which the so-called social security trust fund will run out of money.

The findings of the National Academy of Science directly contradict the findings of
the Heritage Foundation despite the fact they both concentrate on the same economic
factors: welfare benefits and taxes, notwithstanding that the Heritage Foundation skewed
their data by eliminating the tax contribution from immigrants that are paid “off the
books.” Also, the Heritage Foundation did not account for the independent impacts on
both the federal and local governments. Rather, the fiscal effects at the state and local
level were aggregated with the federal-level effects, thus obscuring a significant aspect of
the debate—the differential incidence across taxing and service jurisdictions. Yet, it may
be these differential fiscal effects that explain much of the opposition to immigration by
the authorities in states and localities with large numbers of immigrants.

II. Immigrants’ Impact on the US Economy: An Economic Framework

The fiscal balance of taxes paid and benefit costs is an important part of the
equation regarding the economic impact of low-skilled immigrants. Yet these
calculations with data that are easily measured are not the whole picture. The effect of
immigration on the marketplace and labor force are needed in order to get a more
complete view of the full economic impact.

16 Id.
17 The Immigration Debate: Studies on Economic, Demographic, and Fiscal Effects of Immigration.
A broader economic framework is needed to assess the economic impact of low-skilled immigrants on the overall economy. In a broader context, an influx of immigrant workers represents an increase in productive resources into the receiving country. “Human capital” is embodied in the aggregation of skills, experience, knowledge and abilities which each immigrant brings to the economy. Human capital is what enables humans to produce goods and services for the marketplace and elsewhere, including their households. The increase in productive capacity that arrives with the immigrants would generally be a net benefit to the economy as a whole unless the presence of the immigrants generates a higher burden on the economy than the value of their increased productive capacity. The foregoing discussion emphasized the net fiscal balance. In this broader context, we analyze the possible impacts on the labor market and on aggregate economic output in the economy as a whole.

In the labor market there are two aspects that are central to the issues—one is the possible displacement of workers from the extant population and the second is the possibility of expansion of employment for higher skilled workers attributable to the potential for increased production in the sectors that use immigrant workers. The first would occur if the immigrants’ skills and abilities are direct and close substitutes for the workers in the extant population and the second would obtain if the immigrants are complementary to higher skilled workers. This is both a matter for economic theory and for empirical analysis and cannot be determined categorically one way or the other.

The influx of human capital embodied in immigrants could have a negative market impact on other workers from the extant population by increasing supply of labor.

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18 Lindblom, Charles E. *The Market System: What It Is, How It Works, and What To Make of It*. Yale University Press, 2001. This analysis was fostered by a discussion with Dr. David Franklin, President of Sigma One Corporation, a non-governmental international economic development enterprise. These tenets of economic thought originate from neo-classical mainstream economics; this is the received theory of labor economics and is not necessarily reality. However, it serves to frame this analysis.
19 *Id.*
20 *Id.*
21 It is notable that during that last one and a half decades, the US economy experienced an unprecedented and sustained increase in productivity, much of which was attributed to technical innovation, but not all. Is it plausible that such incremental growth in economic productivity could be linked to the accelerated influx of immigrants?
effort that serves as direct substitutes for the services of the extant population. At the extreme, immigration would depress the wages of the extant population and the bulk of benefits from immigration would accrue to the owners of the enterprises, e.g. the owners of capital. In other words, the cost of the goods and services produced would decline and additional profits from those goods and services would be distributed to the owners of capital used in their production. Under these neo-Marxists conditions, the influx of immigrant workers would decrease the wages of all workers. The net effect would be that more workers would be employed (albeit immigrant workers and now lower paid workers in the extant population), more goods produced and higher profits would accrue to the owners of capital. In this scenario, the extant workers would be net losers—being either displaced or forced to accept lower wages. A more severe outcome would result if the sectors into which immigrants came operated under monopolistic conditions in the product markets. Under these circumstances, the owners of the enterprises would choose not to expand output but simply appropriate the rents generated by the now cheaper immigrant labor. If such conditions obtained in the US economy, business owners would advocate for increased immigration and workers would seek to impede it.

The above scenario assumes that the workers are homogenous, that they are identical in their human capital attributes so that each additional immigrant would displace an extant worker because the immigrant would be more willing to accept substandard wages, e.g. perhaps below the statutory minimum wage. For extant workers working at the minimum wage, the influx of workers would imply unemployment and a need to rely on the governments’ “social safety net”, such as unemployment compensation and Food Stamps.

If, under more likely conditions, the labor market is an amalgam of diverse levels of human capital and differential skills, knowledge, abilities and experience with heterogeneity among workers, the influx of immigrant labor would not be a substitute for

\[\text{id.}\]
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all of the extant workers. Rather, the immigrant labor could be complementary to higher skilled and knowledge-based workers. These latter could actually benefit from the influx of immigrants as the additional supply of low wage (and low skilled) labor would enable the employing enterprises to expand with increased and lower cost production; as the enterprises expanded they would require more workers in the higher skilled categories and would be willing to bid-up wages for the higher skilled workers. Under such conditions only the lower skilled workers would be at risk of displacement. The actual results would depend on the degree to which immigrants labor effort substitutes or complements the labor effort of extant workers and on the overall flexibility and competitiveness of the economy as a whole. The more competitive the economy, the more likely that the influx of immigrants would generate a positive economy-wide effect. The more rigid and less competitive the economy, then the more likely that immigration would adversely affect a large number of extant workers.

In a competitive market economy, owners of capital (enterprises) faced with a lower cost of production (arising from increased supplies of low cost labor) would normally choose to lower the price of the goods and services in order to expand output and total profits. In this competitive situation, the increased availability of lower skilled immigrants could induce an increased demand for higher skilled workers including managers, payroll clerks, technology experts, and other knowledge-based personnel. This is the more likely scenario in the US at the present time, particularly at a time of increased international competition due to trade liberalization globally. In fact, even within low-skilled populations, immigrants tend to be complementary workers because they often specialize in different occupations than do low skilled workers from the extant population. “Among less educated workers, immigrants specialize in manual intensive tasks such as cooking, driving and building while the extant population specializes in language-intensive tasks such as dispatching, supervising and coordinating.”

With more workers entering the labor market, a system for monitoring performance becomes

28 See Id.
29 Id.
30 Peri, Giovanni. Immigration and Cities.
necessary.\textsuperscript{31} So that under prevailing economic conditions in the US, today, and influx of immigrants would be expected to lead to a positive expansion of output and an increased demand for complementary labor services from the extant population. Only to the degree that low skilled extant workers and the new immigrants are homogeneous in skill and abilities can the deleterious displacement effects be expected to obtain.

Another effect from such an increase in productivity (resulting from the influx of immigrants) would be a surge in urban growth which increases the economic attractiveness of cities.\textsuperscript{32} Traditionally, illegal immigrants were concentrated in rural activities; more recently immigration has been growing in the cities. This brings up the question of social negative externalities such as increased crime (and an expanded demand for other social services, such as schools, health facilities, public transportation and safety) that could be a consequence of the increased immigrant flows into the cities. This issue is addressed at a later stage in this paper.

A major economic concept that comes into play is the “general equilibrium effect” – with the expansion of output, the owners of capital would either want to consume more of other products or they would invest more in plant equipment and other materials in order to produce more products.\textsuperscript{33} Thus, there would be a secondary expansion of consumption of goods and services made possible by increased profits (and from the expanded wage income of immigrants and their complementary fellow workers), this, in, turn would cause even more production of goods and services, which could be a channel by which the displaced workers could achieve employment.\textsuperscript{34} The net general equilibrium effect would be that consumers would benefit from the lower prices of goods and services in the marketplace, in effect increasing their income.\textsuperscript{35} Also, since more jobs are created, there would only be partial displacement of low skilled extant workers (the ratio is not 1:1). Because of these general equilibrium effects, the wage rate does not fall as much as one might predict under the more restrictive Marxist perspective.

\textsuperscript{31} Id.
\textsuperscript{33} Lindblom, Charles E. \textit{The Market System: What It Is, How It Works, and What To Make of It}.
\textsuperscript{34} Id.
\textsuperscript{35} Id.
for the labor market and the competitiveness of the economy. At the same time, the increased wage income and output produced (and consumed) would be taxed as income or at the consumption level (sales and excise taxes).

In the face of the possibility of lowered wages for at least some members of the extant population arising from an influx of immigrants, policy makers may choose to attempt to mitigate against this fall in wages. There are three general ways of doing so. First, the value of the goods or services produced could be increased in order to pay the higher wages. Second, the owner of the capital could be offered incentives to invest in more machines and raw materials in order to increase labor productivity. A third option is to curtail the supply of labor to the industry or firm. The first option is not generally feasible in a competitive economy. The second is already in place under the US Federal tax code. So the third option becomes particularly important to the discussion at hand because it is the premise of the argument against legalizing the inflow of low-skilled immigrants. When a country restricts the number of people who can enter its borders, it is curtailing the labor supply and keeping the prevailing wage inside the border higher than without restrictions on migration. Economic theory provides that to the extent owners of capital can select workers from the lower wage immigrant population, downward pressure would be exerted on wages overall. The question then centers on the extent and incidence of wage depression arising from immigration by low skilled workers.

III. The Labor Market: Effect of Immigrants on Wages of the Extant Population

a. Overview of Immigrants’ Effect on Wages

There seems to be solid empirical findings that run across the spectrum of economic studies: that low-skilled immigrants’ effect on the labor market seems to be

37 Id. It is a basic tenet of neo-classical economic theory that workers and all factors of production are rewarded in proportion to the value of their productivity. Thus, the wage rate is equal to the value of the marginal product of labor. Id.
38 Id.
39 See Id.
40 See Id.
positive overall. In cities with large immigration flows, the average wages of extant workers and housing prices increased during the period of 1970-2005.\(^{41}\) However, it is important to keep in mind the distributional effects. Yet overall, despite a positive effect on wages of extant workers with at least a high school degree, there is a negative effect on the wages of extant workers with no high school diploma.\(^{42}\)

b. **Negative Effects on the Wages of the Extant Population**

The general consensus in the economic literature of the small negative effect of low-skilled immigrants on the wages of the extant population is that a 10% increase in the supply of low-skilled immigrants reduces wages of low skilled extant workers by approximately 3.5%.\(^{43}\) In other words, at a wage rate of $10 there would be a reduction of 35 cents in the prevailing wage. This would require an influx of an additional million illegal workers. With the inflows experienced in this last ten years, this would imply that the wages of the low skilled workers are now approximately thirty-five percent lower than had the immigration not occurred, at all.

Despite this consensus, Harvard economist George L. Borjas has insisted that low-skilled immigrants have a negative effect on the wages of all the workers in the extant population – across all education levels and all races. In particular, he argued that there was as much as a 7.5% drop in the wages of high school dropouts and a 3.6% drop in the wages of college graduates.\(^{44}\) He argues that in no instance, is there a positive effect on wages due to immigration.\(^{45}\)

\(^{41}\) Peri, Giovanni, *Immigration and Cities*. Although not central to the analysis at hand, it is important to note this increase in housing prices causes slight rent increase for low-skilled people who rent, but ultimately have a much more positive effect on house-owners who experience moderate appreciation.

\(^{42}\) Ottaviano, Gianmarco I.P. & Peri, Giovanni. *Rethinking the Effects of Immigration on Wages*. National Bureau of Economic Research, Aug 2006. This study took into account the general equilibrium effect discussed above (accounting for complementary and substitution effects, they found that immigrants are “imperfect substitutes” for extant workers).


\(^{45}\) Id.
However, economists David Card, Gianmarco Ottaviano, Giovanni Peri, Chad Sparber, and Patricia Cortes have found positive effects on the wages of the extant population overall, and a slight negative effect only on the wages high school dropouts.\textsuperscript{46} They concur with the general consensus – that a 10\% increase in the supply of low-skilled immigrants reduces the wages of unskilled extant workers by approximately 3.5\%.\textsuperscript{47}

Mr. Peri and Mr. Sparber describe the fallacies in Mr. Borjas’s study – that he used the “crowding out effect” as a variable in his analysis.\textsuperscript{48} In another study by Mr. Peri, he explains that in actuality, there is no crowding out effect.\textsuperscript{49} In the top metropolitan areas, immigrants constitute 26.9\% of the general population.\textsuperscript{50} Because immigrants tend to cluster in cities, some people conclude that there is a “crowding out” effect. If an increase in immigrants “crowded out” the extant population in those areas in which they cluster, it would not change the net population growth; it would merely change the composition of those cities.\textsuperscript{51} However, in most cases, an influx of immigrants has been associated with a larger population overall as well as employment growth for the extant population, thereby nullifying any arguments that immigrants “crowd out the natives.”\textsuperscript{52}

There are other factors that must be taken into account in order to evaluate the severity of immigrants’ impact on the wages of the low-skilled extant population. Despite the slight decrease in their wages, the wage gap between high school graduates and dropouts has been quite constant since 1980.\textsuperscript{53} Even with lower wages, it seems that low-skilled extant workers are no less disenfranchised by the influx of immigrants than they were thirty years ago. However, to the extent immigration depresses the wage rate

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\textsuperscript{46} Peri, Giovanni & Sparber, Chad. \textit{The Fallacy of Crowding Out: A Note on “Native Internal Migration and the Labor Market Impact of Immigration.”}
\textsuperscript{47} \textit{Id.}
\textsuperscript{48} \textit{Id.}
\textsuperscript{49} Peri, Giovanni. \textit{Immigration and Cities.}
\textsuperscript{50} \textit{Id.}
\textsuperscript{51} \textit{Id.}
\textsuperscript{52} See \textit{Id.}
\end{flushright}
of low-skilled workers and increases wages of higher-skilled workers, this phenomenon should create the incentive for skill-acquisition and therefore decrease the number of high school dropouts in the future. The reason for lower wages for high school drop-outs in the cities may have little to do with the influx of immigrants and more to do with their failure to acquire skills through training and education, thus limiting their ability to participate productively in a modern urban setting. Nothing in the literature suggests that the influx of immigrants increases the drop-out rate among the extant population.

c. **Positive Effects on the Wages of the Extant Population**

   Even the White House Council of Economic Advisers found that “roughly 90% of native-born workers experience wage gains from immigration, which total between $30 billion and $80 billion per year.”\(^{54}\) These high-skilled workers are able to earn more for several reasons. With an influx of low-skilled workers with lower wages, the higher skilled workers are able to increase production, and their employers are thereby able to hire more workers at all skill levels. As noted earlier, this in turn creates more managerial-type jobs and jobs for other higher skilled workers with knowledge and skills in technologically driven occupations. The high-skilled workers could, in turn, hire low-skilled workers to help with their personal services (such as landscaping and child care), thus creating more jobs for low-skilled workers and increasing their own productivity.

   In assessing the effect of immigrant workers on the wages of other workers it is interesting to note the apparent wage-effect in different regions. In California, a state with a large immigrant population, the wages of high school dropouts were reduced by 17% from 1980 to 2004.\(^{55}\) Though this seems significant and may be blamed on the influx of immigrants, it is not the end of the story. In Ohio, a state without many immigrants, the wages of high school dropouts were reduced by 31% in that same time period, from 1980-2004. Moreover, in a study by economist David Card, there was no wage difference found that could be attributed to the effect of immigrants, thus

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\(^{54}\) American Immigration Lawyers Association. *Top 5 Myths of this Campaign Season: Ending the Immigration Spin – Just the Facts.*

reinforcing the view that lower wages for high school dropouts have less to do with immigration than with the self induced disenfranchisement occasioned by dropping out of high school.\textsuperscript{56} Although high school dropouts’ wages have fallen significantly, the number of high school dropouts has fallen dramatically in the last 25 years.\textsuperscript{57} This decrease in high school dropouts contributes to a more complimentary workplace, providing for less competition among workers and therefore less wage depression.

The general and broad consensus among mainstream economists is that the effect of recent immigration into the US has been to generate more employment for high skilled, knowledge-based workers. And, with more low-skilled and low-wage workers, owners of capital have been able to expand their enterprises and invest in new equipment in order to produce more, thus contributing to the economy by providing for lower priced goods and thereby increasing consumption, and so forth. A study by Giovanni Peri and Chad Sparber shows that “an increase in ten new foreign-born workers in a skill-set group is associated with an additional 3 to 4 extra jobs for natives.”\textsuperscript{58} Also, the number of jobs across the nation has increased dramatically; between 1990 and 2003, 15 million new jobs were created.\textsuperscript{59} It is estimated that between 2000 and 2010, 33 million new jobs for low and moderate-skilled workers will have been created.\textsuperscript{60} Consequently, immigrants are creating opportunity for the extant workers, not taking jobs away from them.

IV. The Political Economy

Until now, this discussion has centered on the economic effects of immigration without consideration to other factors that may affect the political and policy context for the on-going debates about immigration. This part of the discussion seeks to examine the role of government on the economy and how this interplays with the foregoing economic effects (political economy). In order to gain an understanding of the political

\textsuperscript{56} Id.
\textsuperscript{57} Id.
\textsuperscript{58} Peri, Giovanni & Sparber, Chad. \textit{The Fallacy of Crowding Out: A Note on “Native Internal Migration and the Labor Market Impact of Immigration.”} Jan 2008. Moreover, there is typically better employment performance for natives with a larger influx of immigrants.
\textsuperscript{59} Essential Worker Immigration Coalition.
\textsuperscript{60} Id.
economy with respect to immigration, the preamble to the Constitution will be used as a cataloging framework for the relevant topics:

We the People of the United States, in Order to form a more perfect Union, establish Justice, insure domestic Tranquility, provide for the common defence, promote the general Welfare, and secure the Blessings of Liberty to ourselves and our Posterity, do ordain and establish this Constitution for the United States of America.

U.S. CONST. pmbl.

a. Union

The purpose of making the union “more perfect” was to foster the creation of a country that was controlled by a federal government rather than each state being completely separate.\(^{61}\) Because the central government has direct power to control its citizens, its citizens in turn expect to be treated equally in terms of its state-wide fiscal benefits gained from the federal government.

Immigrant receiving States and their taxpayers tend to be more anti-immigration than other states. This makes sense when taking into account the greater burden on states which have larger populations of immigrants. Recall the previous discussion on the findings of the National Academy of Science – the fiscal deficit attributable to immigrants is at the state and local level as opposed to the federal level.\(^{62}\) This is because states pay a good deal of the costs of providing public services (public safety, schools, roads and transport, \textit{inter alia}) to all residents, including any low-skilled immigrants within their jurisdictions.\(^{63}\) On the other hand, the federal government incurs a net fiscal benefit from immigration. The federal government receives federal income and withholding taxes paid by most immigrants, yet does not incur much in additional expenses.\(^{64}\) This is because there is only slight variation in federal costs attributable to providing services to immigrants as most illegal immigrants are not eligible for federally

\(^{61}\) \textit{The Articles of Confederation}.
\(^{62}\) The Immigration Debate: Studies on Economic, Demographic, and Fiscal Effects of Immigration.
\(^{63}\) \textit{Id.}
\(^{64}\) \textit{Id.}
funded benefit programs, such as food stamps. On the other hand, the costs of national defense and managing public lands do not vary significantly with respect to the size of the population.

At the state (or local) level however, some of the positive effects created by immigration do not necessarily benefit the home state of those immigrants, though these states bear the fiscal costs of immigration. The economy-wide benefits attributable to immigration (such as increased productivity, jobs, and consumption) are diffused over other workers, consumers and capitalists, some of whom may be located in other states or cities. Thus, the increased consumption, incomes and profits are not taxed by the state in which the immigrant resides. This creates a phenomenon where there is a gain to the economy nation-wide, but a fiscal cost to the individual states that receive immigrants. To prevent this unequal distribution of benefits, the federal government could compensate those states for the services they provide to immigrants. Regardless of any apparent remedy for this imbalance, increased immigration (legal or otherwise) creates a need to re-visit the respective roles of the federal and state governments in funding public services in general.

b. Justice

A common misconception is that immigrants are more likely to commit crimes than non-immigrants. In an absolute sense, immigration does increase crime because it increases the population as a whole, but immigrants do not disproportionately commit more crimes than non-immigrants. However, a popular CNN commentator asserts that undocumented immigrants in the US have a 2.5 times higher crime rate than the extant population. Yet the truth of the matter is that both undocumented and legal immigrants are less likely to commit crimes than non-immigrants. A study by sociologist Rubén G.

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66 Id.
68 http://transcripts.cnn.com/TRANSCRIPTS/0606/12/ldt.01.html. In particular, they insist that $3 million dollars is spent on incarcerating illegal aliens daily and 30% of all inmates in the Federal Prisons are illegal aliens. Id.
Rumbaut found that among the majority of inmates, specifically those males in the age range of 18-39, the incarceration rate for the extant population was five times higher than the incarceration rate for immigrants. Economists Kristin F. Butcher and Anne Morrison Piehl concur with Rumbaut’s study, and state further that the newer immigrants have even lower rates of incarceration.

Although the incarceration rate of immigrants is lower than the same-sex and age group of non-immigrants, there is another apparent consequence of the influx of immigration. It has created an increase in incarceration rates of low-skilled natives, particularly African Americans. In particular, a 10% increase in immigration has accounted for nearly 1% increase in incarcerated African Americans. This may be partly due the displacement of low wage workers from the extant population, particularly in the cities. It would not appear that immigrants provide an undue burden on the administration of justice and that reports to the contrary are not based on fact. Though it is obviously true that all illegal immigrants are breaking the law by their immigration status alone. The remedy for that would be to establish a path to legalization of their residence and such could be conditioned on being “clean” of any other criminal violations of law.

c. Domestic Tranquility

Anti-immigration vocalists have urged that immigrants are not being assimilated rapidly enough and are creating a subculture among themselves. However, a 2007 study done by the Pew Hispanic Center found that out of “adult first-generation Latinos, just

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69 Rumbaut, Rubén G., University of California, Irvine; 2007. In 2000, the extant population had an incarceration rate of 3.5% and the immigrants had an incarceration rate of 0.7%. Even with a larger percentage of immigrants that are in this bracket than non-immigrants due to the ages of the respective groups, immigrants have a much lower incarceration rate. Hagan, John and Palloni, Alberto. Immigration and Crime in the United States. It is also noteworthy to mention that those immigrants that have the highest incarceration rates are from Cuba, The Dominican Republic, Colombia and Jamaica. That a few nationalities are underrepresented in society but overrepresented in prisons sheds a new light on the immigrants’ incarceration rate yet. See Id.
71 Borjas, George L. Effects of Immigration on African-American Employment and Incarceration.
72 Id.
73 Id.
23% say they can carry on a conversation in English very well. That share rises sharply, to 88%, among the second generation of adults, and to 94% among the third and higher generations."\(^74\) Homeownership is also a good indicator of whether a sub-group is assimilating into mainstream culture; it shows the group is entering the middle-class. In California, Latino immigrant homeownership rose in the last 10 years from 16.4% to 64.6% among those Latinos who have lived here for at least 30 years.\(^75\) These studies show that even newly arrived immigrants have begun to assimilate, and future generations will assimilate even more rapidly. Similar negative views by the (then) extant population have been held against prior waves of immigration from Ireland, Eastern Europe and Italy, and it is the descendants of these latter that are now concerned about the assimilation of the new immigrants from Latin America.

d. **Security**

Much of the political argument against an influx of illegal immigration centers around the opportunity it creates for terrorists and drug dealers to enter the country. The Homeland Security Report stated that “[d]uring the year of 2005 there were 4 to 10 million illegal aliens that crossed our Southern Border also, as many as 19,500 illegal aliens from Terrorist Countries. Millions of pounds of drugs, cocaine, meth, heroine and marijuana, crossed into the U. S from the Southern border.”\(^76\) It is preposterous to think that drug lords and terrorists would cross one-hundred miles through the Sonora desert, risking death, dehydration and abuse. In their study of crime in the United States, John Hagan and Alberto Palloni found that two-thirds of the illegal immigrants that had been arrested were arrested for mere property offenses, and only 9-15% had been arrested for drug crimes.\(^77\) If terrorism and drug dealing was so prevalent among illegal immigrants, why would so many of those immigrants be low-skilled workers struggling to make ends meet?

\(^77\) Hagan, John and Palloni, Alberto. *Immigration and Crime in the United States.*
e. General Welfare

The many within the extant population argue that the fiscal burden of the low-skilled immigrant households increase poverty nation-wide, thus lessening the “general welfare” of non-immigrants. This argument is based on the premise that since low-skilled immigrants consist of 5% of the nation’s population and are perceived as not paying taxes, they burden US taxpayers with paying for their welfare benefits. For example the Heritage Foundation stated that it is, “fiscally unsustainable to apply this system of lavish income redistribution to an inflow of millions of poorly uneducated immigrants.”

The discussion above suggests that low-skilled immigrants are not such a burden as the anti-immigration activists would choose to believe. The perception of a problem with the fiscal burden associated with immigrants must be mostly related to a misunderstanding of the differential incidence of the burden and the benefits between the federal government and the states and localities. Notwithstanding the “general equilibrium effect” previously discussed, low-skilled immigrants contribute to the economy via direct taxes collected on their income and consumption and indirectly through the taxes collected on the output increases to which they contribute. Even with such a conservative estimate of the Heritage Foundation that only 55% of undocumented workers pay taxes, this would mean that 78% of immigrants pay taxes (since they estimate that 40% of all immigrants are undocumented). In reality, an even higher percentage of immigrants likely pay income taxes due to the Tax Identification Numbers that are used in lieu of Social Security Numbers. Moreover, all immigrants pay consumer and asset taxes (such as real estate and other property taxes which are imbedded in their rental payments). Recall that a study by the National Academy of Sciences found that immigrants provide the government with a fiscal benefit of $50.9 billion annually ($1,258

78 Rector, Robert & Kim, Christine. Heritage Special Report, The Fiscal Cost of Low-Skilled Immigrants to the U.S. Taxpayer.
79 Id.
80 Id. at 2.
per capita) apart from the billions of dollars which end up in the Social Security Administration’s “suspense file”.

The Heritage Foundation fails to take into account why the immigrant population would receive benefits, although they mention it in passing – “the average immigrant earned 23% less than the average non-immigrant.” The low-skilled immigrant families are working as hard as any other “native” American, the majority of whom are paying taxes, yet they are living on much less money than most families. Can this country really turn a blind eye to those in need? Moreover, since there is no real economic burden on the US, the only real difference between low-skilled immigrant families and “native” families is their language, culture, and the color of their skin. If it is “fiscally unsustainable” to provide welfare benefits to low-skilled immigrant families, how soon will someone argue that it is “fiscally unsustainable” to provide welfare benefits to African-American families or to other low income non-immigrant families?

f. Liberty

The 14th Amendment’s Due Process Clause provides:

All persons born or naturalized in the United States, and subject to the jurisdiction thereof, are citizens of the United States and of the State wherein they reside. No State shall make or enforce any law which shall abridge the privileges or immunities of citizens of the United States; nor shall any State deprive any person of life, liberty, or property, without due process of law; nor deny to any person within its jurisdiction the equal protection of the laws.

U.S. CONST. amend. XIV, § 1. This clause formally defines “citizenship” as being born or naturalized in the United States. In 1898, the Supreme Court held that a person born in the United States (or its territories) is eligible for birthright citizenship notwithstanding the nationality of his or her parents. However, the Supreme Court has not explicitly ruled on whether children of illegal parents are entitled to birthright citizenship, although

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81 The Immigration Debate: Studies on Economic, Demographic, and Fiscal Effects of Immigration.
82 Rector, Robert & Kim, Christine. Heritage Special Report, The Fiscal Cost of Low-Skilled Immigrants to the U.S. Taxpayer.
it is generally assumed they are. Moreover, in dicta, the Court has said that children of illegal parents are entitled to birthright citizenship.

The Heritage Foundation urges the elimination of birthright citizenship for children of illegal immigrants. The Foundation views these children as “anchor babies,” since once 21 years old, they can petition for their parents to be granted legal permanent residents. “Having a child as an illegal immigrant within U.S. borders is a nearly automatic pathway to welfare, Social Security, Medicare, and eventually citizenship for an illegal immigrant.” To immigrate to this country merely for the possibility of obtaining a green card over 21 years later is certainly suggestive of great foresight on the part of twenty year-old immigrants today. Rather, immigrants are aware of the economic opportunities for themselves and for their families here compared to their home countries where opportunities are much lower.

The Heritage Foundation urges that children of illegal immigrants should not only be excluded from citizenship, but also from schooling, health care and other benefits. The lack of public education for immigrant children would only increase the high-school drop out rate. But according to the foundation itself, households formed by high school dropouts receive three times in benefits than what they pay in taxes. Thus, their decision to not educate children would only exacerbate the “drain” on the US economy and the burden on its taxpayers that they argue against.

The reason the 14th Amendment was enacted was to overrule the part of the *Dred Scott* decision which held that African Americans could not be citizens of the United States. To hold that children of immigrants cannot be citizens merely because of the

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85 Id.
86 Rector, Robert & Kim, Christine. Heritage Special Report, *The Fiscal Cost of Low-Skilled Immigrants to the U.S. Taxpayer*. The premise of this argument is to remove incentives for immigration.
87 Id. at 21.
88 Id.
89 Id.
90 Id.
91 See *Dred Scott v. Sandford*, 60 U.S. 393 (1856).
status of their parents is to deny justice to those of another culture and ethnicity, in effect returning to the days of *Dred Scott*. Is not justice colorblind?

g. **Posterity**

It was mentioned above that social security contributions to “fake” social security numbers used by illegal immigrants in their employment amount to approximately eight billion dollars annually, and that these funds help to defray the costs of benefits to persons in the extant population and to postpone the projected eventual default of the social security trust fund. What is more significant about the role of immigrants in relation to the social security system is that the US like other developed countries has a population that is aging and with a low birth rate among the extant population, it is likely to face a severe problem in meeting its social security obligations to future retirees.\(^92\) Most immigrants are young working age individuals and come from cultures with a tradition of large families (higher birth rates than in the US).\(^93\) The influx of immigrants is providing for expansion in the base of the age-gender demographic pyramid and creating the possibility for long term sustainability of the social security system.\(^94\) Such benefits to the US economy are more likely to materialize if there were to be a path to legalization of the current cohorts of illegal and undocumented workers. Maintaining the *status quo* of illegality serves to drive the workers “underground” and foregoes the collection of social security contributions from the immigrant workers.

Some of the proposals to exclude the US born children of illegal immigrants from educational services and health care would serve to create a permanent underclass of poorly educated persons with few opportunities for economic progress. At an extreme, these children would be driven into lives of despair and illegality by such a policy. Indeed, then some of the CNN commentator’s dire statements about criminality would become true, but only as a consequence of a failed policy with short foresight.

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\(^{92}\) See Toossi, Mitra. *A New Look at Long-Term Labor Force Projections to 2050.*

\(^{93}\) *Id.*

\(^{94}\) *Id.*
In the foregoing economic discussion it was clear that labor force expansion is a driving force for economic expansion. It is also clear that with declining birth rates and aging of the extant population, the expansion of the labor force will slow down and so will economic growth and hence prosperity in the future. This demographic reality can be stemmed with a well regulated system of legalized immigration to help enhance the economic prospects for all Americans. Furthermore, the US has lost market share to many developing countries because of labor scarcities (higher cost labor) even for technology-based products, e.g. electronic devices. With a well regulated influx of immigrants, the US economy may be able to increase competitiveness in a number of important markets to restore competitive advantage based on productive yet relatively low skilled labor from immigrants. The alternative to labor in-migration is for the out migration of capital (human, physical and financial) to countries with more ample supplies of productive workers. For example, Lawrence F. Katz stated that the economic impact of low-skilled immigrants in the labor market was slight, and that it may dissipate if other factors such as trade flows were taken into account. Particularly, he believes that without low-skilled immigrants, some products made in this country would probably have to be imported from other countries.

V. Conclusion

The consensus among economic researchers is that immigrant labor provides direct and indirect positive benefits to the economy and that immigrant households do not represent a fiscal burden to the nation as a whole, though they represent a net burden to the states in which large numbers of immigrants reside. The principal deleterious effects are related to their impact on the competing low-skilled workers from the extant population. These latter have experienced lower wages than would have otherwise obtained, and for those at or near the minimum wage they may have been displaced from employment. While the depressive effect on wages may be small at any point in time, the

95 Id.
96 Id.
98 Id.
effect over time in lower wages and lower income earning opportunities for extant workers at the lower end of the job-scale could be significant.

The deleterious effects attributable to immigration would appear to manifest themselves more in cities in which immigrants have clustered. As such they may have added burdens to public service systems and perhaps induced other social externalities. The main apparent social externality is that the influx of illegal immigrants into certain cities may have indirectly induced a higher degree of criminality among the displaced young and low-skilled workers from the extant population. Significantly, the rate of incarceration for low skilled immigrants is substantially lower than that of the same age-gender cohort from the extant population. It is not clear if the apparent displacement effects among high school dropouts in the extant population are related to immigration or to other social phenomena that underlie the self-induced disenfranchisement of dropping out of school at an early age for members of the extant population. Furthermore, the main “criminality” associated with “illegal” immigrants is their illegal status in violation of the existing immigration laws.

As the economic benefits from increased immigration by young workers are clear in the present and will become more palpable as the extant labor force ages (and retires), it would seem that the US should, as a matter of public policy, institute a means to legalize and regulate the in-flow of workers from other countries. The number of illegal workers (perhaps as many as fifteen million) have become a vital part of the US economy and it would be economically detrimental and administratively impossible to attempt to enforce the existing laws through deportations. Given the benefits from the presence of immigrant workers, priority attention must be given to legalization and to creation of a system for orderly regulation of future flows of workers into the US economy.

President Bush introduced a “temporary worker/legal status proposal” on January 7, 2004, which advocates for the creation of a new temporary visa program and the allowance of more green cards. Although the proposal has not yet been passed by

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Congress, one such bill that was reviewed by Congress would “create a new temporary worker program; provide undocumented workers who are in the country and working at the time of the bill’s introduction a process to qualify for legal work status following security and background checks,” as well as heighten security of the borders and crack down on employment regulations to ensure ones eligibility to work.  

This country’s current stagnant immigration policy forces so many families who are significantly contributing to the US economy to live a life of “non-existence”, in fear of being visible to the public eye. Because of this traumatic practical reality, it is imperative that both sides of the political debate be willing to compromise. A proposal such as Bush’s that would grant some sort of immigration status to undocumented workers may begin to untangle the turmoil created by this longstanding immigration debate. Not only would such action redress the grievances of so many families, it would also be in tune with the economic reality of low-skilled immigrants (their positive effects on the economy overall).

Two major issues will have to be faced in establishing a new legal framework for immigrant workers, however. One is the issue of the fiscal pressures on the states and localities that receive large numbers of immigrants for work in their enterprises. This issue will require some participation by the federal government in revenue sharing with the states and local jurisdictions or the taxation of enterprises that employ immigrant workers to help provide compensation for the local authorities in the provision of public services to the immigrants and their households. The aforementioned bill also provided for “reimbursement to the states for certain health care expenses related to the treatment of undocumented immigrants.” Since it is the state and municipal governments who bear the fiscal burden for immigration, the federal government should distribute some of the fiscal benefits created by immigration to those municipalities, not only for health-related expenses but for other social services that are provided to low-skilled immigrant families. The other issue relates to remedies for the workers displaced by immigrants. Again there

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100 Id.
may be a role for the federal government in a way similar to the provision of compensation to workers displaced by the impact of free trade agreements.

Finally, the political debate will have to face the rhetoric associated with legalization of illegal immigrants already in the country. The opponents of immigration reform argue that legalization would constitute granting “amnesty to criminals” that have violated the US immigration laws. This is a Gordian Knot that must be cut in full realization that the economy needs the continuing services of these immigrant workers and that it would be impossible to return them all to their countries of origin. The sooner the debate focuses on the facts and eschews jingoistic posturing the sooner an equitable and humane solution can be found.