

The Costs of Immigration to Taxpayers: Analytical and Policy Issues

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Preface

In the midst of steady increases in international immigration and a sluggish national economy, the question of whether immigrants fully pay--in the form of taxes--for the public services they use is being hotly contested by analysts and policymakers alike. This report reviews the recent estimates of net costs of immigration that have fueled this debate. It identifies the reasons that they differ so widely and outlines what it would take to develop more reliable estimates. It is part of a comprehensive study of the effects of 30 years of immigration on the state of California and was funded by The Ford Foundation and the James Irvine Foundation.

This study should be of special interest to policymakers; federal, state, and local officials; advocates; and researchers concerned with gaining a better understanding of the complexities of the effects of immigration on U.S. society.

Summary

Do immigrants contribute more to public revenues than they receive in benefits from public services? Do state and local governments pay a disproportionate share of the cost of services used by immigrants? These two questions have received considerable analytical and political attention in recent years because of a rapid growth in the number of immigrants, their high concentration in a few states, and a lagging economy that has slowed growth in public revenues. This report reviews the estimates of the net fiscal costs of immigration made by several recent and well publicized studies--at the national, state, and local levels. We asked why these estimates differ so widely and what should be done to develop more credible estimates.

Findings of Recent Studies

The studies included in this review were selected because they were completed after 1990, sought to be comprehensive in their coverage of services used and public contributions made by immigrants, and were the latest "best" estimates made by authors or institutions.[\[1\]](#) Nearly all of these studies build on the pioneering study prepared in

1992 for the Los Angeles County Board of Supervisors, which is among those reviewed here.

The studies tend to agree on only one thing: immigrants' relative contributions to public revenues. Specifically, there is general agreement that, currently, illegal immigrants contribute less to public revenues than do those who were amnestied under the Immigration Reform and Control Act of 1986 (IRCA). They, in turn, contribute less than legal immigrants, who contribute less than the native-borns. This finding merely reflects differences in the average incomes of these various groups rather than in their immigration status per se. In short, the suggestive finding that illegal immigrants are net consumers of public services is more a product of their low incomes than of their immigration status.

Otherwise, and in spite of their common basis, the findings of these studies differ widely. For example, estimates of the yearly per-capita costs of providing federal, state, and local services to immigrants range from a low of \$2,638 to a high of \$4,476. Similarly, yearly per-capita revenue estimates vary from \$1,051 to \$3,644. Overall, the net cost estimates range from a yearly "surplus" of \$1,400 per immigrant to a "deficit" of \$1,600.

There are two main reasons for these disagreements and, hence, for the absence of a reliable estimate of the actual net public costs (benefits) of illegal immigrants or of immigrants as a whole. First, the data needed to make detailed cost/benefit calculations are unavailable. This lack of data forces each study to make assumptions about immigrants' service usage and revenue contributions--assumptions that are often mistaken. Second, studies differ in the range of public services and revenue sources they include and on a variety of other complex conceptual issues ranging from how to define an immigrant to how to measure costs.

Data Needs

Accurate, reliable, and comparable estimates of the net fiscal costs of immigration require several different types of information:

- An accurate count of immigrants by immigration status and other relevant socioeconomic characteristics.
- Reliable information on immigrants' *actual* use of all relevant services and the *actual* public costs of providing those services to immigrants and members of their families, differentiated by immigration status.
- Reliable information on which revenue sources immigrants *actually* contribute to and the *actual* amount of their contributions, again differentiated by immigration status.

In the absence of reliable data on these critical parameters, studies have made differing assumptions about the number of immigrants, their service usage, and their contributions to public revenues. Inaccurate assumptions can affect not only the magnitude of the estimates but also the direction of the net cost estimates.

Most studies, for example, assumed that immigrants' use of services is proportional to their numbers, regardless of their socioeconomic and immigration status. However, RAND data collected from a 1991 sample of Salvadoran and Filipino immigrants residing in Los Angeles challenge this proportionality assumption. Overall, our data suggest that use of public services is generally not affected by immigration status, including illegal status. It is affected by family income and family composition, particularly the presence of children under age five. In addition, immigrants' use of certain services such as libraries, public transit, parks, and recreation, is affected by a range of factors--income, number of children, and English proficiency--that condition the immigrants' need for the services.

Another common assumption made in these studies is that the incidence of tax payments and payroll deduction is uniformly high across income levels and immigration status. Our data suggest, to the contrary, that payroll deductions and federal tax filings vary significantly with immigration status--illegal immigrants have the lowest incidence of payroll tax deducted and the lowest incidence of federal and state income tax filing.

Without additional data on service usage and revenues, the question of how much immigrants actually cost the public treasury cannot be answered. A recent RAND pilot survey of immigrants concluded that it would be feasible to collect such data by immigration status, but that it would be expensive: up to \$7 million for a survey of 9,000 immigrants in nine sites across the country.[\[2\]](#)

A Need for a Uniform Accounting Framework

Another fundamental reason for disagreement on the size of the net fiscal deficit or surplus caused by immigration is that analysts have not yet agreed on a *uniform accounting framework* for determining (a) which public services and which revenues, hence costs, ought to be included in estimating the costs of immigration; (b) how to define and categorize immigrants; and (c) how to select the appropriate accounting unit and measure costs, and over which period of time. The resolution of these issues will have a significant impact not only on the outcomes of future studies, but on their interpretation for policy.

Services to Be Included

A starting premise of any fiscal cost accounting framework is that all public services should be included or a justification provided for excluding a particular service. This has not, however, been the common practice: The range of public outlays has varied from a low of 40 percent to a high of 80 percent. While most studies agree that all services provided directly to individuals (e.g., education, nutrition, and social services) should be included, very few, if any, studies include such major categories of federal expenditures as national defense, support of research and development, general government and administrative expenditures, and interest on the national debt.

Such exclusion may be justified on one of two grounds--neither of which fully hold. Either immigrants do not derive any benefit from these services or the marginal costs of providing these services to immigrants is zero. The former assumption is questionable at best, and the latter assumption--even if closer to reality--implicitly suggests that native-born residents should subsidize the provision of these services to immigrants.

Social insurance programs such as Social Security present another source of accounting disagreements. The implicit argument for their exclusion is that these programs are self-funded. But these programs often have a redistributive function that provides disproportionate benefits to low-income immigrants and natives. In addition, the revenues from the special funds are often treated as general revenues.

Even when the decision is made to include social insurance expenditures in the cost estimates, there is still a decision as to whether those costs should be allocated on a current, intergenerational, or even a lifetime basis. Because most immigrants are young and thus will not be eligible to receive social insurance benefits for several years, the cost allocation approach that is used can result in as much as a tenfold difference in the estimates of these costs.

Revenues to Be Included

Just as all services should be included on the cost side of the ledger, so should all revenues be included on the benefit side. But once again, this has not been the common practice, and the public revenues included in these studies can range from a low of 45 percent of total public revenues to a high of 75 percent. Revenues collected from individuals (e.g., personal income, property, and sales taxes) have generally been included. But revenues from businesses, banks, and corporations have typically been excluded. Exclusion of corporate and commercial property taxes is especially problematic when the full costs of the local services provided to business are attributed to consumers, including immigrants, as has typically been the case. It leads to an overestimate of service costs attributed to immigrants or, alternatively, to an underestimate of the revenues deemed attributable to them.

Defining Who Is an "Immigrant"

All studies agreed that *foreign-born noncitizens* should be classified as immigrants. But they disagreed about how to treat naturalized immigrants (those who have become citizens) and the native-born children of illegal and legal immigrants. Naturalized immigrants and native-born children of immigrants are, by U.S. law, citizens, and from a legal perspective they are not immigrants. However, had they or their parents not immigrated to the United States, they would not be in the country in the first place: Thus, from a pragmatic perspective, it is arguable that they should be counted with immigrants for cost accounting purposes.

Categorizing Immigrants

The categories used to group immigrants are important not only to the estimation procedures but also for the policy implications that can be drawn from these estimates. Some studies have generally grouped immigrants into three categories: currently illegal, those who received amnesty, and other immigrants. Other studies just focused on immigrants as an aggregate category. Since most estimates rely on assumptions about average incomes and service usage within the subgroups of immigrants they identify, these estimates depend directly upon which groupings are used. Just as important, forecasts about the future that are drawn from these estimates hinge on how immigrants are categorized. Typically, the implicit assumption built into these studies is that if a particular group currently produces a net public "deficit," then future immigration by that group either ought to be eliminated or reduced.

In fact, such broad groupings fail to capture the diversity of immigrants or to provide an adequate basis for policy, because they do not mirror the criteria used to admit legal immigrants. More appropriate categories would distinguish immigrants based on the determinants currently used to admit permanent immigrants, such as refugee status, family reunification, employment, or other more specific characteristics that would provide a better determinant of whether immigrants are likely to be high or low consumers of public services, or revenue generators.

Defining the Appropriate Accounting Unit

The studies reviewed here allocated the costs of services to individual immigrants but measured revenue contributions on the basis of families, where the "immigration status" of the family is defined in terms of the status of the family head. This inconsistency in accounting units poses a problem for families containing a mixture of native and foreign-born members or members whose immigration statuses differ--a frequent occurrence.

Lifetime Versus Annual Costs

All studies reviewed have focused on the net fiscal costs of immigration in a given year. This is an appropriate perspective if the concern is with balancing government budgets from one year to the next. However, immigrants' use of services and contributions to revenues are likely to vary over time as the immigrants become more familiar with U.S. society and labor markets. Indeed, the services provided to immigrants, especially education and health services, can appropriately be regarded as investments made today in expectation of a return to be received tomorrow. From this perspective, the appropriate question is not whether the "net costs" of providing services to immigrants yield a "surplus" or a "deficit" on an annual basis but whether, over the duration of the immigrant's residence in the United States, the nation reaps a net cost or benefit. None of the studies reviewed considered this issue.

Recasting the Policy Debate

In spite of their proliferation, recent studies on the net fiscal costs of immigration do not provide a reliable estimate of what those net costs are. Moreover, without new data and

agreement on a uniform accounting framework, additional studies will likely not provide a definitive answer to the policy questions raised about the costs of immigration.

Despite their limitations, recent studies of the costs of immigration have focused attention on a heretofore overlooked issue--whether the public costs of immigration should be considered in formulating the nation's immigration policy. To date, such central immigration policy issues as how many and which immigrants to admit and what public services they should be offered have been formulated without a consideration of their fiscal implications. Instead, they have been determined by long-term economic, humanitarian, and social considerations. Incorporating fiscal considerations in the public policy calculus would represent a real departure from past practice.

Considering public costs in immigration policy should redirect the current debate away from a focus on the aggregate public costs of immigration--and hence, away from aggregate numbers exclusively. After all, we do not expect the native population, any subgroup of the native-born, or the nation as a whole to "fully pay its way" on a yearly basis, as our continuing federal budget deficit bears witness. Instead, the debate should refocus on the individual and family factors that lead to high or low public service usage and the economic success of immigrants, not just in a single year, but over the entire course of their residence in the United States. In short, the policy debate should be refocused on the question of the selectivity of immigrants and on the costs and benefits immigrants generate over the long term, not just the short term, which seems to have been the focus to date.

[1]Several authors or institutions made multiple estimates, then "improved" subsequent estimates.

[2]Julie DaVanzo, Jennifer Hawes-Dawson, R. Burciaga Valdez, Georges Vernez, *Surveying Immigrant Communities: Policy Imperatives and Technical Challenges*, Santa Monica, Calif.: RAND, [MR-247-FF](#), 1994.

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