The Economic and Fiscal Consequences of Immigration: And What it Means for Federal Policy

MCFE Forum
Kim S. Rueben, Urban Institute
October 2017
Actions in Washington DC

- Since election last November - expectation changing policies in DC
- Currently up for consideration
  - Tax Policy
  - Immigration Policy
- What do we know about reform? What do we know about how current and possible policy changes will affect our (economic) future?
- What does it mean for state and local governments and those within specific states?
Unified Framework for Fixing Our Broken Tax Code

- Whitehouse and Congressional Leadership released framework for tax reform
  - Included goals and claims:
    - Increase growth
    - Support middle-class families
    - Simplify Code
    - Tax relief for businesses, small businesses
    - Broaden the base and close loopholes
    - Will be fiscally responsible and lower the tax burden on the middle-class
  - Included some details, omitted others
## Unified framework provisions

- Ind Rates 12, 25 and 35%
- Inc std ded $12,K/ 24K
- Repeal personal exempt
- Increase child credit
- $500 non-child dep credit
- Repeal item deductions except mort int and charity
- Repeal AMT, estate tax
- Use alt measure of inflation
- Repeal other credits/ded
- Reduce pass-thru rate 25%
- Reduce corp rate 20%
- Repeal business AMT
- 5 year full expensing
- Limit ability to deduct int
- Repeal business credits and deductions
- Adopt territorial system of tax foreign source income
- One time tax unrepatriated

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Like everyone who comments on the framework, including Admin and Congress, we made assumptions about unspecified parts.

Source for our assumptions (when missing):
- Republican Leadership’s “A Better Way”
- Trump Administration’s prior outline

Our modeling produces revenue and distributional estimates consistent with assumptions. Macro estimates coming soon.

Will update as more details known.
TPC estimates the proposal would cost $2.4 trillion over the first 10 years and $3.2 trillion over the subsequent decade.

**FIGURE 1**

Revenue Effects of Tax Proposals in the Unified Framework

FY 2018–27

(Billions of dollars)

Source: Urban-Brookings Tax Policy Center (TPC) Microsimulation Model (version 0217-1) and TPC calculations.

Note: Other includes repealing the estate and GST (generation skipping transfer) taxes.
Currently tax increases from individual, non-business changes, most cuts on business side
  - $1.3 trillion increase in revenues from repeal of SALT deduction
    - In response to bipartisan opposition, alternatives being
      - Revenue raised increases in second 10 years on individual side due to change in indexing and some credits not increasing

TPC Static Estimates

Moody released dynamic estimates (consistent with TPC analysis)
  - Finds plan does little to lift long term growth
  - Due to increased debt and interest costs
Federal Immigration Reform

- Presidential Action Taken to:
  - Limit Refugee Numbers and Access to US from Specific Countries
  - Repeal DACA but 6 months for Congressional Action
  - Increased enforcement of immigration rules

- New pathway for Dreamers?

- Cotton-Perdue (RAISE Act) – cut number immigrants in half

- New “proposal” as of Sunday
  - Build a wall on Southern Border
  - Speed up deportation and increase enforcement
  - Limit number of immigrants
  - Change in priorities for new immigrants

- What do we know about current policy and role of immigrants in our country?
The Economic and Fiscal Consequences of Immigration

Kim S. Rueben, Urban Institute
October 2017
(NAS – presentation slides)
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Overview

- How have immigration patterns changed recently?
- How does immigration affect the U.S. economy?
  - How does immigration impact the labor market?
  - What are the other ways that immigration impacts the economy?
- How does immigration affect public revenue and spending?
  - What are the fiscal effects on federal and state budgets at the aggregate (national) level?
  - How does immigration affect the fiscal picture in states?
We Find

Recent changes in immigrant patterns:
There have been several recent significant changes in immigration patterns. Growth in the unauthorized population has stopped, and immigrant education has risen. Moreover, as US labor force growth has slowed with the aging of the population, immigrants and their children will account for the vast majority of current and future labor force growth.
**Economic effects:**
There are many important benefits of immigration, including on economic growth, innovation, and entrepreneurship, with little to no negative effects on the overall wages or employment of native born workers in the longer term. Where negative wage impacts have been detected, native-born high-school dropouts and prior immigrants are most likely to be affected.

**Fiscal effects:**
The fiscal picture suggests negative short-run effects, especially at the state level. In the longer term (75 year time horizon), fiscal impact of immigrants are positive at the federal level, though still negative at the state level, due to the costs of educating immigrant children. But the children of immigrants (the second generation) go on to be the most positive fiscal contributors in the population.
How Have Immigration Patterns Changed Recently?

Today, nearly one in four Americans are immigrants or second generation (US-born children of immigrants).

Over the past twenty years, there was an increase in the immigrant share of the population.
Trends in the Unauthorized Population

Unauthorized immigrant population increased over the past 20 years…

…but if we look at more recent history, we see that the unauthorized population actually shrank between 2007 and 2009 and has since leveled off.

⇒ unauthorized population has stopped growing
Immigrant Education has Increased

- Recent immigrants are more educated than immigrants of the past
  - Among recent immigrants, younger immigrants are particularly narrowing the education gap with natives
- Foreign born more concentrated at the extremes, *overrepresented*:
  - Among those with less than 4 years of HS AND
  - Among those with more than 4 years of college, particularly in STEM fields
FIGURE 3-1 Educational attainment of recent immigrants (those who entered in the 5 years prior), by Census year, 1970-2012 (in percentages).

Immigrants have become more geographically dispersed – moving to states and communities that historically had few immigrants – though the majority continue to reside in traditional gateway cities and states.

![New Immigrant Arrivals by State of Residence](chart.png)

<table>
<thead>
<tr>
<th>Tier Type</th>
<th>1975-80 (%)</th>
<th>2010-14 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Tier States (&gt;6%)</td>
<td>64%</td>
<td>44%</td>
</tr>
<tr>
<td>Second Tier States (2-6%)</td>
<td>12%</td>
<td>16%</td>
</tr>
<tr>
<td>Third Tier States (1-2%)</td>
<td>19%</td>
<td>24%</td>
</tr>
<tr>
<td>Other States</td>
<td>5%</td>
<td>16%</td>
</tr>
</tbody>
</table>
How has this Changed in the Midwest?

- The number of foreign-born in the Midwest has grown
  - Immigrant population increased from 1.9 million in 1970 to 4.5 million in 2010 and
  - The share of the Midwestern population that is foreign born increased from 3% to 7%

- However the number of immigrants has grown faster in other regions
  - So the share of all U.S. immigrants living in the Midwest has fallen from 19.5% to 11.2%
How does an influx of foreign-born workers affect native-born workers’ employment and wages?

• Economic theory predicts:
  – Native-born workers whose skills are most similar to those immigrant workers (close substitutes) are most likely to be negatively affected
  – When immigrants’ skills complement those of native-born workers, the presence of immigrant labor may improve their prospects
  – Returns to capital may be increased
• Because of these mixed predictions, theory alone cannot predict the effect on native workers; empirical evidence is needed to determine the direction and magnitude of any effects
Conceptual issues in empirically estimating effects of immigration on wages & employment

- Immigration is just one of many factors influencing native wages and employment
- Immigration itself is influenced by the same factors that shape overall wages and employment
  - Example: immigrants may be drawn to labor markets that are expanding
- Impact of immigration may differ across time and space depending on the characteristics of the immigrants and labor market conditions
What is the Impact of Immigration on Wages?

• When measured over a period of 10 years or more, the impact of immigration on the wages of the native-born overall is very small.
• Estimates for subgroups span a wider range.
• *To the extent negative effects are found*, groups that are the closest substitutes to low-skilled immigrants are most likely to experience negative wage effects:
  – Prior immigrants
  – Native-born, high-school dropouts
What is the Impact of Immigration on Employment?

- Little evidence of effects on the overall employment levels of native workers
- Possible negative effects for subgroups
  - Immigrants may reduce hours worked (but not employment) of native teens
  - Some evidence of negative effects on employment rate of prior immigrants
How do High Skilled Immigrants Affect Employment and Wages?

• Several studies have found a *positive* impact of skilled immigration on wages and employment of both college- and noncollege-educated natives

• This could be because
  – high skilled immigrants are complementary with native-born workers
  – high skilled immigrants increase innovation and productivity
  – high skilled immigrants interact with native-born workers and their skills “spill over”

• However, some other studies focused on narrowly defined fields find that immigrants can have adverse effects on wages or productivity of natives working in those specific fields
Immigration has a Positive Effect on Economic Growth

• High-skilled immigrants have boosted our capacity for innovation and technological change
  – Research suggests skilled immigrants raise patenting per capita, contributing to productivity growth
  – Immigrants contribute to entrepreneurship
• Immigration supplies prime-age workers who have helped counterbalance our aging population
  – Immigrants and their children account for the vast majority of current and future labor force growth
Other Economic Effects of Immigration

• Increase in availability and affordability of consumer goods in some markets benefits consumers—e.g., child care, food preparation, house cleaning and repair, construction.

• Immigrants and the second generation are a source of demand in housing markets.

• Immigrants may help to make labor markets more efficient by flowing where opportunities are best (both when they arrive in the US and in subsequent moves).
What are the Fiscal Impacts of Immigration

Immigrants’ fiscal impact depends on the balance between:

Immigrants’ *contribution to revenues* by paying taxes versus

Immigrants’ *contribution to expenditures* by consuming public services

Use a cost benefit analysis so include all spending and taxes.
What issues have to be considered when empirically estimating the fiscal effects of immigration?

– How are the costs of public goods treated?
  • Some expenditures increase with each additional person (education or health care)
  • Some expenditures are not affected when an additional person is added to the population —these are public goods (e.g., national defense)

– How do we assign education costs?
  • To society because we all benefit?
  • To parents or children?
    – (we assign to parents)
Net Fiscal Impacts by Age, 2012

[TAXES minus BENEFITS]

AGE: fiscal impact of any group will depend on age distribution, working ages most positive

EDUCATION: less educated, lower wages and tax payments and possibly higher benefits

CHILDREN/DEPENDENT S: if their expenses included, make working ages less favorable
Fiscal Impacts: Findings, National Level

- *Immigrants* tend to have a lower fiscal contribution than the native-born, especially at the state level.
- Immigrants more concentrated in the prime working ages—raises their contributions, *BUT*
- Immigrants less well educated—lowers their contributions, controlling for age.
- They also tend to have a larger number of children—raises government expenditures on education (benefits received).
  - Note: this does not take into account that expenditures on education could be considered an investment in future productivity; rewards reaped when children grow to adulthood.
- However, we find second generation (adult children of immigrants) contribute the most.
• *All three groups* (immigrants, second generation, and 3rd+ generation) had fiscal shortfalls—the deficit we are always talking about!

• In 2013, taking into account dependents and
  – using an *average cost approach*: immigrants accounted for 18% of the population and 22% of the deficit; the natives accounted 82% of the population and 78% of the deficit
  – using a *marginal cost approach*: immigrants accounted for only 4% of the deficit and 18% of the population
  – Assumptions really matter!
Consistent with national level analysis, first generation adults (plus dependents) more costly to state and local governments than 2\textsuperscript{nd} and 3\textsuperscript{rd}+ generations but depends if using average or marginal costs.

Of the three groups, 2\textsuperscript{nd} generation generally contributes the most to the bottom line of state + local government fiscal balances.

The net burden of immigration to fiscal balance sheets varies tremendously across states:
- Largely coming from demographic differences
- And state policy choices
Difference in Fiscal Burden Between First and Third Generation

Average Cost Allocation

Marginal Cost Allocation

Net difference:

$3,000  $1,500  $0  $1,500
Number of Children Varies Across Generation

First Generation US Avg .52

Third Generation US Avg .36

Average number of children:
What Does This Look Like in the Midwest

Largely due to differences in # of kids and policy choices

<table>
<thead>
<tr>
<th></th>
<th>Average</th>
<th>Marginal</th>
<th>3rd+gen</th>
<th>1st gen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Midwest</td>
<td>-$3,250</td>
<td>-$1,300</td>
<td></td>
<td>.55</td>
</tr>
<tr>
<td>IL</td>
<td>-$3,650</td>
<td>-$50</td>
<td></td>
<td>.54</td>
</tr>
<tr>
<td>IN</td>
<td>-$900</td>
<td>+$150</td>
<td></td>
<td>.56</td>
</tr>
<tr>
<td>MN</td>
<td>-$7,250</td>
<td>-$5,550</td>
<td></td>
<td>.64</td>
</tr>
</tbody>
</table>
Recently Arrived Immigrants

Newly arrived immigrants (since 2006) are 14% of US 1st generation sample and 19% of the 1st generation in the Midwest.

Newly arrived immigrants in the Midwest are even more likely to have more education and be younger than prior immigrants than US.

<table>
<thead>
<tr>
<th></th>
<th>Arrived since 2006</th>
<th>Arrived before 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>&lt;HS</td>
<td>&gt;BA</td>
</tr>
<tr>
<td>US</td>
<td>23%</td>
<td>14%</td>
</tr>
<tr>
<td>Midwest</td>
<td>19%</td>
<td>18%</td>
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<tr>
<td>IL</td>
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<td>18%</td>
</tr>
</tbody>
</table>

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Conclusions

**Economic effects**: Immigration has many important benefits with little to no negative effects on the overall wages or employment of native born workers, thought some evidence of very small negative wage impacts on native-born high-school dropouts and prior immigrants.

**Fiscal effects**: The fiscal picture suggests negative short-run effects, especially at the state level. In the longer term fiscal impact of immigrants are positive at the federal level, though still negative at the state level, due to the costs of educating immigrant children.

– Taken together, findings of National and State level analyses raise questions of equity between the federal government and the states and across states in terms of shares of costs and benefits

– Especially important given the fiscal contributions are largest from the second generation or native children of immigrants
Facts should matter

- Limiting immigration is likely bad for our economic future
  - Immigrants and their children increasing share of our labor force
  - Contribute to our economy and fiscal bottom line

- Policy priorities can differ
  - But understanding and thinking about likely outcomes should be understood
  - Debate the issues and numbers
THANK YOU

For more information please contact:

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For more information on tax reform

Immigration policy:https://www.urban.org/policy-centers/cross-center-initiatives/program-immigrants-and-immigration