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# National Academy of Sciences Study of Immigration: Workers and Taxpayers Lose, Businesses Benefit

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WASHINGTON (September 21, 2016) — The National Academies of Sciences, Engineering, and Medicine have just published a report examining the fiscal and economic impact of immigration. Below is the Center for Immigration Studies' analysis of the report.

Overall, the report by the National Academies (NAS) shows that immigration, legal and illegal, does create an economic benefit for native-born Americans, but this benefit is generated by reducing the wages of native-born workers, often the least-educated and poorest. Earlier waves of immigrants also are impacted. By lowering wages, immigration provides higher incomes and profits for businesses. The NAS also finds that immigrants (legal and illegal) at the present time create a net fiscal deficit (taxes paid minus services used) that is as large as or larger than the economic benefit. However, the immigrants themselves do benefit by coming here.

“The new NAS report provides invaluable insight,” said Steven Camarota, director of research for the Center for Immigration Studies. “Immigration is primarily a redistributive policy, transferring income from workers to owners of capital and from taxpayers to low-income immigrant families. The information in the new report will help Americans think about these tradeoffs in a constructive way.” (Full discourse: Dr. Camarota was chosen by the NAS as outsider reviewer for the report and his research is cited in it.)

The NAS study is online at <https://www.nap.edu/catalog/23550/the-economic-and-fiscal-consequences-of-immigration>. Findings in the study and conclusions:

- Immigration does make the U.S. economy larger by adding workers and population. But a larger economy is not necessarily a benefit to natives.
- Making reasonable assumptions, the NAS report estimates that the actual benefit to the native-born could be \$54.2 billion a year. But relative to the income of natives the benefit is very small, representing a “0.31 percent overall increase in income” for native-born Americans (p. 128).
- To generate that benefit, immigration has to reduce the wages of natives in competition with immigrant workers by \$493.9 billion annually. But business gain \$548.1 billion from these lost wages, for a net gain of \$54.2 billion.<sup>1</sup> Unfortunately, the NAS does not report this large income redistribution, though it provides all the information necessary to calculate it.
- The above analysis is based on economic theory, but the report also summarizes empirical studies that have tried to directly measure the impact of immigration on the wages of natives. The size of the wage impact from such direct measurement is similar to that shown above (Table 5-3, pp. 207-208). But the size of this impact remains a subject for debate among economists.
- Turning to the fiscal impact, immigrants do not pay enough in taxes to cover their consumption of public services at the present time. The NAS report presents eight different scenarios based on different assump-

tions about the current fiscal impact (taxes paid minus services used) of immigrants and their dependent children. All of the scenarios show that immigrants are a fiscal drain. The drain is as large as \$278.7 billion a year.<sup>2</sup> In all the scenarios dealing with the current fiscal impact the deficit is as large or larger than the economic benefit reported above.

- Second-generation and third-generation Americans (native-born children and grandchildren of immigrants) are also in fiscal deficit, mainly because of the federal budget deficit shown in Table 8-2 p. 312. Of course, a fiscal drain for natives may be unavoidable. But adding more people through our immigration policies who run a deficit only adds to the problem.
- The deficit is mainly caused by the federal budget deficit — Washington is not collecting enough taxes to pay for government generally. At the state and local level, where budgets tend to be more in balance, immigrants are still a large net drain, while natives are a net fiscal benefit (Table 9-6, p. 404).
- The current fiscal deficit at the state level is very large. The average fiscal drain shown for each “immigrant independent person unit” (in effect, immigrant-headed households) is shown in Table 9-6, p. 404. Multiplying the average by the number of such units in each state (Table 9-13, p. 426) shows the following fiscal deficits: California -\$18.96 billion; Texas -\$7.8 billion, New York -\$5.79 billion, Illinois -\$4.16 billion, New Jersey -\$3.24 billion, Washington State -\$2.51 billion, Massachusetts -\$1.86 billion, Colorado -\$1.18 billion, Arizona -\$1.17 billion, Florida -\$1.14 billion, Georgia -1.02 billion, Nevada -\$620 million, Oregon -\$600 million, Virginia -\$469 million, New Mexico -\$429 million, and North Carolina -\$424 million.
- Projecting the fiscal impact over the next 75 years, the NAS study also provides eight different scenarios, based on different assumptions. Four of the scenarios project a negative impact on the budget, four do not (Table 8-12, p. 341).
- The projections are positive if the NAS assumes that federal spending in the future will be restrained in the way envisioned by the Congressional Budget Office (CBO). Further, the outlook is more positive if one assumes future immigrants are more skilled than is the current population of immigrants. Assuming that immigrants also create no additional costs for defense makes the projections significantly more positive.
- There are problems with all of these assumptions. Our current immigration system does not select immigrants based on their skills, so the future education level of immigrants is undetermined. Also, it is impossible to know how the country will deal with budgetary issues over the next 75 years — the CBO certainly does not have a great track record in this regard. Finally, immigration could be a source of domestic terrorism, which may result in military responses and additional defense spending.
- What is important about the fiscal impact reported in the NAS study is that the current fiscal impact is negative no matter what assumptions the NAS makes. The projections over the next 75 years are just assumption-driven speculation.
- A “key” conclusion of the report (p. 87) is that there is a “slowing rate of wage convergence for immigrants admitted after 1979” (i.e., immigrants are catching up with natives more slowly than before). The lower education level of newly arrived immigrants partly explains this difference, but even after controlling for education, the report still finds that immigrants assimilate more slowly today than in the past.
- The report also finds a slowdown in acquisition of English. It even cites as a possible explanation the huge number of immigrants already here who give immigrants much less incentive to learn English (pp. 89-91).
- If new immigrants hurt the wages and slow down English acquisition of immigrants already here, then a reduction in immigration may help the millions of immigrants already here adapt to life in this country. The biggest beneficiary of lowering immigration may be immigrants themselves.

## End Notes

<sup>1</sup> The report states that the economy (GDP) is \$17.5 trillion and 65 percent is labor. Immigrants are 16.5 percent of labor so natives are 83.5 percent of labor (p. 128). This means that the total labor income of natives is \$9.498 trillion (\$17.5 trillion times 65 percent times 83.5 percent). A 5.2 percent reduction in native wages equals \$493.9 billion and the benefit to employers is 548.1, for a surplus of \$54.2 billion.

<sup>2</sup> The fiscal deficit can be calculated by multiplying the average net cost (outlays minus receipts) by the number of units shown at the top of the table for each generation.