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9

The Fiscal Impact

THE CONCEPTUAL CLASH between the two views of immigrants that I have emphasized—immigrants as workers or immigrants as people—takes a front-row seat when it comes to thinking about the fiscal impact of immigration. If immigrants were simply raw labor inputs that came to the United States only to work and generate economic value while on the production line, we would not have to worry about what happens outside the factory gates. They would be, after all, a type of robotic worker without needs that might implicate the welfare state, and they could be easily disposed of once their productive value was exhausted.

But immigrants are people, and the welfare state both administers to people's needs and is funded by those same people, introducing a big new wrinkle into the discussion. Immigrants do have lives outside the factory gates; they have children, go to the hospital, pay taxes, cannot pay the rent, and retire. Outside those gates, they run into a wide array of government programs designed to ease the path through what can be very difficult times.

Given this reality, it should not be surprising that the concern about immigrants spills over to their fiscal impact. How do immigrants affect expenditures on the programs that make up the welfare state? And how do those expenditures compare to the taxes immigrants pay and the economic benefits they create during their time on the assembly line?

The concern over the link between immigration and welfare actually begins before any immigrant arrives. One often hears that social insurance programs are a magnet for immigrants. The safety net in many industrialized countries, including the United States, allows a much more comfortable and secure life than would be provided by the typical job in many developing countries. The welfare state might then attract persons who

otherwise might not have migrated. Moreover, the magnetic attraction does not end after the move. The safety net may also discourage immigrants who "fail" in the United States from returning home.

Although it has proved very difficult to quantify these magnetic effects, there is little doubt that incentives matter in all aspects of life. And the welfare state does change the set of incentives that enter the immigration decision. The question, therefore, is not whether such magnetic effects exist. The question is instead: How strong are they?

Milton Friedman made a famous quip that encapsulates the concern. Despite his impeccable free-market credentials, Friedman said: "It's just obvious you can't have free immigration and a welfare state."[1] Friedman, in fact, went on to emphasize that the welfare state had to come into the picture when trying to come up with a sensible way of thinking about immigration:

> There is no doubt that free and open immigration is the right policy in a libertarian state, but in a welfare state it is a different story: the supply of immigrants will become infinite. Your proposal that someone only be able to come for employment is a good one but it would not solve the problem completely. The real hitch is in denying social benefits to the immigrants who are here… . Look, for example, at the obvious, immediate, practical example of illegal Mexican immigration. Now, that Mexican immigration … is a good thing. It's a good thing for the illegal immigrants. It's a good thing for the United States. It's a good thing for the citizens of the country. But, it's only good so long as it's illegal.[2]

Note that Friedman stressed the crucial distinction between workers and people: It would be great if the only immigrants admitted were those who come for employment, but "the real hitch is in denying social benefits to the immigrants who are here." Friedman then chose the interesting example of undocumented Mexicans to emphasize the point. The economic gains that accrue to the United States are a "good thing" only if we can bar undocumented immigrants from access to social

benefits. In short, illegal immigration is "*only good so long as it's illegal*."

The fact that we need to contend with the workers-people distinction has cornered some libertarians into arguing that the problem is not immigration, but the existence of the welfare state in the first place. As William Niskanen, a former chairman of the Cato Institute, put it: "Better to build a wall around the welfare state than the country."[3]

Some things, however, are easier said than done. And if the real-world data that I will summarize in this chapter are any indication, the wall built around our welfare state does not appear to prevent many immigrants from entering that particular territory. The statutes that make up that wall *already* specify that any individual who is likely at any time to become a public charge is not admissible, and allow for the deportation of immigrants who become public charges within five years of entry. Moreover, the welfare reform enacted in 1996 prohibits most new immigrants from receiving federal assistance, with the ban being lifted when the immigrant becomes a US citizen (a process that takes at least five years).

As we shall see, Milton Friedman's concerns were well founded. Despite the many restrictions on welfare use by immigrants, the evidence indicates that immigrant households are far more likely to receive assistance than are native households. Given the obvious fact that immigrants do indeed receive services, the discussion has evolved into a contentious debate over whether immigrants pay their way. They might use services, but perhaps the cost of those services is covered by the taxes they contribute.

The determination of whether immigrants pay their way is based on a seemingly simple exercise. On the one hand, we add up all the taxes immigrants pay, including income taxes, sales taxes, and property taxes. On the other hand, we figure out how much it costs to provide services to the immigrant population, including welfare, public schools, police and fire protection, and building additional roads to serve a larger population.

Inevitably, there are many different interpretations of what the data actually say, turning the debate into a battle of dueling

experts who use different methodologies and assumptions to reach different answers.

CNN, 2014:

> A Congressional Budget Office report … concluded that a path to legalization for immigrants would increase federal revenues by $48 billion. Such a plan would see $23 billion in increased costs from the use of public services, but ultimately, it would produce a surplus of $25 billion for government coffers.[4]

Federation for American Immigration Reform, 2011:

> Illegal immigration costs U.S. taxpayers about $113 billion a year at the federal, state and local level. The bulk of the costs—some $84 billion—are absorbed by state and local governments.[5]

The exercise becomes much tougher if we want to measure the fiscal impact over the long run. The fertility rate of American women is well below the replacement rate, making it impossible to pay off the unfunded liabilities in such programs as Social Security and Medicare. At some point, the day of reckoning will require a substantial increase in taxes or a substantial cut in benefits (or both). Immigration can increase the number of taxpayers, helping to spread the future burden. The predicted fiscal impact of immigration will then depend on many factors that are unknowable at present, including the future rate of economic growth, as well as the future path of taxes and government expenditures.

Despite all the confusion, there is a simple arithmetic fact about the welfare state that is worth keeping in mind: *By design*, the welfare state subsidizes persons who have below-average incomes, and those subsidies are paid for by persons who have above-average incomes. In a nutshell, the welfare state redistributes income from the well-off to the disadvantaged.

If the typical immigrant was a high-skill person, outperforming others in the labor market, that immigrant would surely be defraying the cost of welfare programs. But if the typical immigrant was a low-skill person, performing worse than other workers, that immigrant would likely receive a net

subsidy. Put bluntly, low-skill immigration is likely to be a drain on native taxpayers, while high-skill immigration is likely to be a boon. This simple "iron law of welfare" is often lost behind the political confusion and deliberate obfuscation in the immigration debate.

1. WELFARE USE BY IMMIGRANTS

A RECURRING THEME in this book has been that it is important to look at the nuts and bolts of how we learn certain things about immigration. As we have seen, sometimes the data are tortured a bit too much to trust the conclusion, and sometimes the conclusion is actually built in by the assumptions.

Looking under the hood is particularly important when asking if immigrants are net contributors to or net users of the programs in the welfare state. Yet again, the answer depends on what data are used, how the data are manipulated, and what assumptions are made.

The wide range of conclusions allows for a lot of cherry-picking by advocates. Depending on one's perspective, it is possible to cite a study claiming that immigrants use welfare a lot and impose a fiscal burden on natives, but it is also possible to cite an equally impressive-looking study claiming that natives benefit because immigrants contribute more to the treasury than they take out.

Given this disparity, it is enlightening to illustrate—in a very simple way—how the same publicly available data can support either one of the two polar viewpoints. The Current Population Survey (CPS) is the premier monthly survey of the US population and is collected by the Census Bureau. It is the survey used to calculate the official unemployment rate that makes news upon its release every first Friday of the month.

The March survey is particularly important for researchers. In addition to the monthly inquiries about employment and unemployment, the March survey solicits information on a person's income in the previous calendar year, and on whether the person received particular types of public assistance, including Medicaid, food stamps, and cash benefits. Since 1994, the CPS has reported whether a person is foreign-born, so

we can now construct a twenty-year-long series on welfare use by immigrants and natives and see how those trends compare.

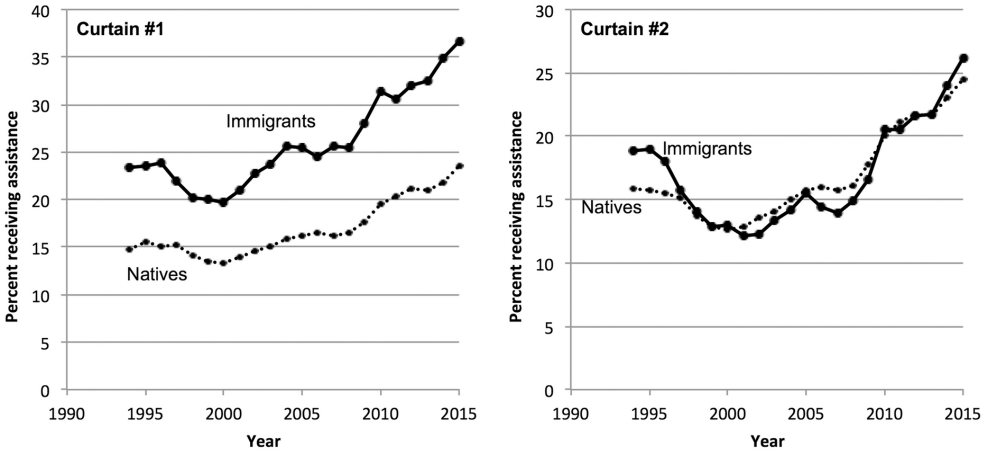
It is important to emphasize that the CPS data, like the decennial census, include all foreign-born persons who happen to be enumerated by the Census Bureau. The statistics that I will report here, therefore, include welfare use by both legal and undocumented immigrants, and it is not possible to ascertain which group is most responsible for the trends.

To keep things simple, being "on welfare" will mean receiving benefits from any one of three programs: Medicaid, food stamps, or cash benefits.* Many other programs could be thought of as some type of welfare, ranging from public housing to free school lunches. The fraction of both natives and immigrants on welfare would obviously be higher if one were to include these additional programs, but it is easy to illustrate the main point by concentrating on the three main programs that make up the safety net. We are interested in finding out whether the fraction of immigrants on welfare is higher, lower, or the same as the fraction of natives on welfare.

The two "curtains" of Figure 9.1 show the twenty-year trends in welfare use calculated from the CPS, but for now I will not reveal the difference between the two curtains. Let me emphasize that I am using the same CPS data to calculate the trends in both curtains. Nevertheless, it is obvious that in curtain 1, immigrants are on welfare far more often than natives, and increasingly so. But in curtain 2, the welfare use of the two groups is essentially the same.

Let me reemphasize: *both curtains use exactly the same data*. Depending on our perspective, it is easy to cherry-pick the curtain that fits the desired ideological position and claim either that official government data show that immigrants use welfare much more often than natives and the gap is widening, or that official government data show that immigrants do not use welfare more often than natives. The one conclusion that the data do not allow is that immigrants use welfare less often than natives.

FIGURE 9.1. TRENDS IN WELFARE USE, 1994–2015



Source: Author's calculations using the 1994–2015 March Current Population Surveys.

So, what is the difference between the two curtains? It all depends on the fine print. In curtain 1, I am reporting welfare use by *households*—which is the way welfare use is most often analyzed in social science research. Most welfare programs, after all, are allocated at the household level. For example, it is the presence of minor children that might entitle a single mother to receive an income grant for the family. In curtain 1, the CPS data are manipulated to determine whether anyone in the household receives Medicaid, food stamps, or cash.

An immigrant household is one in which the head of the household is foreign-born, and a native household is one in which the head is native-born. It is evident that households headed by an immigrant have particularly high rates of welfare use, and that the gap between immigrant and native households increased over time. By 2015, 37 percent of immigrant households were on welfare, compared to 24 percent of native households.

But the trends in curtain 2 seem to contradict this observation. In this alternative scenario, I manipulated the data so that the frame of reference is a single *person*, rather than a household. In other words, the relevant question becomes: Did a particular individual receive welfare? If one calculates the fraction of people who received assistance, there is little difference

between immigrants and natives. About 25 percent of both groups received welfare in 2015.

What exactly is going on? I introduced a subtle trick in creating curtain 2. Suppose a young, single immigrant woman arrives in the United States. After a few years in the country, she becomes a single mother and has two children. In curtain 1, this three-person grouping is classified as an immigrant household. If the mother's income is sufficiently low, the children (and perhaps even the mother herself) qualify for some type of assistance. The household enters the tally *once*, as an immigrant household on welfare.

In curtain 2, this three-person household enters the tally three different times. If this household is on Medicaid, the tally records *one immigrant person* on welfare and *two native persons* on welfare. And therein lies the trick: because the children were born in the United States, they enter the cost-benefit calculation on the native side of the ledger. As the two curtains illustrate, this trick makes a huge difference in what conclusion we draw from the same data. To emphasize yet again, the fine print matters!

My own view is that the trends in curtain 2 are uninformative and misleading. The decision of whether or not to admit an immigrant should depend on the long-term implications of that decision, including the immigrants' choice of how many children to have and whether the government will have to fund the services provided to those dependents. The US-born children of immigrant households would not exist, and those welfare expenditures would not be incurred, if the immigrant was never admitted in the first place.

The distinction between curtains 1 and 2 might seem a purely academic exercise, unrelated to the public debate, but the editorial board of the *Wall Street Journal* helpfully served up a reminder in 2015 of how cherry-picking the data leads to the desired ideological point:

> The Center for Immigration Studies recently found "significantly higher welfare use associated with immigrants." But … they didn't measure individuals. To get to the headline-grabbing result, CIS had to measure

> households. Given that immigrant households are typically larger than those of native-born Americans, simple arithmetic means that the more people you have in a home, the more likely one of these people will receive … government benefit.[6]

The *Wall Street Journal* does not ask why exactly the immigrant household is larger. Nor does it point out that many of those extra people in the household would enter the tally as natives if the calculation were done at the person level.

Remarkably, we are not yet done with the data problems. In addition to the subtle manipulations involved in creating the two curtains in Figure 9.1, there exists another major problem with many of the welfare statistics thrown around in the political debate: the CPS, the source of many of those statistics, is notorious for providing poor measures of welfare use in the population—for both immigrants and natives.

The Survey of Income and Program Participation (SIPP), which is also conducted by the Census Bureau, is the "gold standard" on welfare use. The SIPP was specifically designed to get better measures of program participation, whereas the historical purpose of the CPS was to calculate the monthly unemployment rate. The SIPP has been shown to give much more reliable figures on welfare participation.[7]

The SIPP, however, is not as user-friendly as the CPS. It is *much* harder for a researcher to manipulate the SIPP data than to conduct the same exercise in the CPS. Not surprisingly, the typical study of welfare use by immigrants relies on data from the CPS, which is far from perfect, but far more convenient to use.

This research shortcut gives a *very* misleading picture of the difference between immigrants and natives. Table 9.1 reports the fraction of households on welfare in 2012 using both the CPS and the SIPP. The widely used CPS understates welfare use by both immigrants and natives, but the error is far greater for immigrants. According to the SIPP, 46 percent of immigrant households—*almost half*—were on welfare, compared to only 27 percent of native households.

Unfortunately, the SIPP does not report an immigrant's specific country of birth, so it is impossible to determine which groups are most responsible for such high welfare use. The SIPP, however, does report whether the household head is Hispanic or Asian. It is apparent that much of the excess use comes from Hispanic immigrant households. According to the SIPP, over 60 percent of such households received welfare in 2012, compared to only 30 percent for households headed by Asians or non-Hispanic whites.

The fact that immigrants use welfare more often than natives is striking, but not that surprising. The iron law of welfare programs—redistribution from the well-off to the disadvantaged—must imply that welfare recipients tend to be people who would do poorly in the labor market. Because the immigrant population is disproportionately low-skill, a disproportionately high number of welfare recipients are foreign-born.

TABLE 9.1. WELFARE USE BY IMMIGRANTS AND NATIVES IN 2012

	Households receiving welfare (percent)	
	CPS data	SIPP data
Natives	21.1	27.4
Immigrants	32.5	45.8
By race and ethnicity:		
Asian immigrants	20.0	30.5
Black immigrants	33.5	47.2
Hispanic immigrants	44.7	61.9
Non-Hispanic white immigrants	21.4	30.9

Source: Author's calculations using the 2013 Current Population Survey and the 2012 calendar-year waves of the Survey of Income and Program Participation.

In fact, ample evidence indicates that the main reason immigrants use welfare more often is not that they are immigrants, but that they are, on average, less skilled.[8] Half of the gap between the two groups would disappear if we simply compared the welfare use of similarly educated immigrants and natives. And about 70 percent of the gap would disappear if we also adjusted for differences in household size and state of residence. In other words, it is not "immigrant-ness" that is mainly responsible for the high welfare use by immigrant households. It is, instead, that these households are particularly vulnerable, and the available safety net protects them from very poor outcomes.

What *is* surprising is the very high level of welfare use among immigrants in general. It is difficult to remain unconcerned when 46 percent of immigrant households receive some type of public assistance.

2. THE NATIONAL ACADEMY OF SCIENCES

THE WELFARE STATE raises a multitude of questions about the economic, political, and cultural impact of immigration. How does welfare use affect the long-term assimilation of immigrants? What is the impact of the welfare state on political participation by immigrants? What are the implications of welfare dependency for the social fabric in immigrant communities?

Despite the importance of these questions for any overall assessment, the immigration debate has focused on a much simpler and presumably more easily answerable question: Do immigrants pay their way in the welfare state? In other words, do the taxes that immigrants pay cover the additional expenditures they trigger?

The array of conflicting answers to this question allows us to conclude whatever is ideologically convenient. To resolve the conflict in what seems to be an answerable question, the NAS was asked to examine the evidence in the mid-1990s and come up with an independent estimate of the bottom line. The hope was that this review would conclusively establish whether immigrants are a fiscal burden or a fiscal blessing.

The NAS gathered a panel of social scientists (including economists, sociologists, and demographers) to look at the existing evidence, perhaps improve on the methodology, and come up with an answer. The estimates in the NAS report published in 1997 became "conventional wisdom" and were referred to frequently in subsequent years.

Fast-forward a couple of decades and the NAS has gathered a new panel to reexamine the question and update the calculations.† It is extremely useful to provide a historical perspective of the NAS conclusions. Such a perspective gives us two decades' worth of hindsight to see how well the experts did back in 1997. Those lessons form a valuable reference point for interpreting the projections that the new panel makes.

The NAS panels estimated the fiscal impact of immigration both in the short run and in the long run. The short-run calculation is easy to explain. Suppose we look at the population in a particular state in a particular year. We can use the available data to calculate the cost of services provided to each person in the population that year. We can also use the income data to estimate how much each person paid in taxes. We can then add up the two columns, calculate the difference between the cost of services provided and taxes paid, and come up with an estimate of the bottom line.

The short-run estimates in the 1997 NAS report are essentially a tallying of this type done separately for the immigrant and native populations. The tally of the costs included all the usual welfare programs, as well as the cost of any additional services provided by state or local governments, ranging from public schools to garbage collection, and from incarceration to fire protection. The tally of taxes was also comprehensive, including income taxes, sales taxes, automobile taxes, alcohol taxes, and property taxes.

The 1997 panel carried out this short-run calculation for two states, California and New Jersey. Given the differences in earnings and welfare use between immigrants and natives, it is not surprising that the tally indicated that immigrants paid less in taxes and received more services. As a result, immigration turned out to be a fiscal burden, particularly in California, a state that offers generous services and has many low-skill

immigrants. Extrapolating the experience of California and New Jersey nationwide implied that each native household paid about $300 per year (in inflation-adjusted 2015 dollars) to fund the services provided to immigrants back in 1997.[9]

Accounting for the much larger immigrant population today raises the per-native household cost to about $470 a year.[†] Because there are 106 million native households today, the total fiscal burden is about $50 billion annually. The 2016 NAS panel estimated that the burden would be even larger if we also accounted for the expansion in state-and-local government services since 1997. The fiscal burden would then rise to between $60 billion and $130 billion.[§] Put bluntly, immigration unambiguously imposes a fiscal burden on the native population in the short term.

There are, however, two conceptual difficulties with the point-in-time comparison between taxes paid and benefits received. Although some services, such as schooling for children, are costly to provide to immigrants today, they are also an investment, and this investment will generate fiscal benefits eventually. The children will have higher salaries, pay more in taxes, and require fewer services.

In addition, the short-run exercise ignores the fact that the aging of the native population will inevitably create fiscal problems in the future and that immigration can perhaps help alleviate those problems. The replacement fertility rate in the United States is about 2.1 children per woman, but the average native woman has only 1.8 children.[10] This fertility gap will make it impossible to fund many programs in the long term, unless benefits are drastically cut, taxes are dramatically increased, or *additional taxpayers are found*. A helicopter drop of millions of immigrants might just be the source of those taxpayers.

The 1997 NAS panel estimated the long-run fiscal impact of immigration by tracking what happens over the 300 years after the entry of a particular immigrant. Think of the sequence of events triggered by admitting an immigrant today: The country incurs some costs. Over time, the immigrant's tax contributions grow as assimilation takes place. Equally important, the

immigrant has children. The education of the children may be costly, but they eventually pay taxes and receive fewer services. The children of immigrants have their own children, and the process begins anew.

TABLE 9.2. LONG-RUN FISCAL IMPACT OF THE AVERAGE IMMIGRANT (1997 NAS REPORT)

Time span	Gain or loss
300 years	+$80,000
25 years	–$18,400
50 years	+$11,200
300 years and no budget adjustment in 2016	-$15,000

Source: James P. Smith and Barry Edmonston, eds., *The New Americans: Economic, Demographic, and Fiscal Effects of Immigration* (Washington, DC: National Academy Press, 1997), 334, 337. All estimates are in 1996 dollars.

As Table 9.2 shows, the panel concluded that admitting one immigrant will generate a net gain of $80,000 when added up over three centuries (equivalent to $122,000 in inflation-adjusted 2015 dollars). Despite the short-run fiscal burden, immigrants seem to be a very good deal when viewed from this longer-term perspective. The main reason is that more immigration means more taxpayers: "The role immigrants play in bearing the cost of the aging of the baby-boom generations and of rising health costs, largely for the elderly, contributes very strongly to their overall positive impact, more so than does any other single factor."[11]

Not surprisingly, the $80,000 estimate got a lot of media coverage at the time and continued to be widely cited for years afterward. For example, the Council of Economic Advisers in 2007, at the time that the Bush administration was trying to get Congress to enact amnesty for undocumented immigrants, resurrected the number by claiming that the long-run approach

> captures the full costs and benefits of the children of immigrants. Of course, such projections must rely on

> assumptions about the future path of taxes and government spending as well as economic and demographic trends. From this long-run point of view, the … study estimated that immigrants (including their descendants) would have a positive fiscal impact—a present discounted value of $80,000 per immigrant on average.[12]

There is no doubt that the long-run calculation is conceptually superior to the short-run calculation. But, as the CEA noted, "*such projections must rely on assumptions*." As we have seen repeatedly, the nuts and bolts of calculations matter. And in this case, the details are not pretty.

There are two serious problems with the $80,000 long-run estimate. The first is obvious: What exactly do we mean by the long run? The 1997 NAS panel chose a 300-year time frame. One does not have to be a big consumer of economic forecasts to know that a 300-year frame is absurd. We can barely predict next year's unemployment rate. How exactly are we supposed to predict the "future path of taxes and government spending as well as economic and demographic trends" for three centuries?

To its credit, the panel also made projections based on more reasonable assumptions. If the long run involved only a 25-year time frame, for example, the $80,000 gain became an $18,000 loss, and if the long run extended over 50 years, the gain fell to $11,000. Not surprisingly, those alternative estimates did not receive media or political attention.

The calculation of the long-run impact must also confront the fact that the current fiscal path of the United States is not sustainable, so much depends on the assumed "future path of taxes and government spending." The 1997 NAS panel solved this issue by making the following assumption:

> Starting in 2016, and thereafter, fiscal policy will hold the debt/GDP ratio constant at the level of 2016.[13]

In plain English, in the year 2016—coincidentally, the year this book is being published—the federal government will either cut benefits substantially or pass a huge tax increase so that the debt problem does not worsen thereafter. As the last line of Table 9.2 shows, if the NAS had not made this

assumption, the $80,000 gain would quickly have become a $15,000 loss (even with the 300-year time horizon). In other words, an out-of-the-blue assumption about future taxes and spending built in the conclusion that immigration in the long run is fiscally beneficial because we can spread the pain of paying off our *already accumulated* debt over a larger population. Without this assumption, the taxes paid by the immigrant and descendants would not cover the additional expenditures they would trigger.

This historical account of what the NAS did back in 1997 is educational because we can now see whether the assumption about the future path of taxes and government spending held up. Despite the narrative building and nice sound bites that came out of this computational exercise, the attempt to predict the future turned out to be ludicrously wrong. The often-trumpeted "finding" that immigration generated an $80,000 fiscal benefit per immigrant turned out to be nothing more than arbitrary wishful thinking.

With these lessons in mind, the 2016 NAS panel estimated the long-run fiscal impact today, using a perhaps more realistic 75-year time span for the long run and a wider array of plausible scenarios. The update highlights the importance of two distinct assumptions. First, the estimated impact is again very sensitive to the assumed future path of taxes and spending. Second, the impact changes dramatically if we allow for the possibility that immigrants increase the cost of providing such government services as national defense. As an economist would put it, many government programs are a "public good"; their cost would remain unchanged if we added one more person to our club. For example, the existing military infrastructure can certainly extend its protective shield to *one* additional immigrant without any increase in costs. It is hard to believe, however, that the cost of public goods would be unaffected if we admitted over 40 million immigrants.¶

Table 9.3 summarizes the bottom line in various scenarios, including the possibility that an immigrant increases the cost of public goods by what it costs to provide that same service to a native and that the United States pursues the "future path of taxes and government spending" used by the Congressional

Budget Office (CBO) in its fiscal projections. The average immigrant is fiscally beneficial only if that immigrant does not increase the cost of public goods *and* taxes rise (or benefits are cut) in the future, as projected by the CBO. Otherwise, the $58,000 long-term gain turns into a loss that might be as large as $119,000.#

TABLE 9.3. LONG-RUN FISCAL IMPACT OF THE AVERAGE IMMIGRANT (2016 NAS REPORT)

	Gain or loss	
	Assuming the future path of taxes and spending stipulated by the CBO	Assuming the current path of taxes and spending continues into the future
Immigrants do not increase the cost of public goods	+$58,000	–$36,000
Immigrants increase the cost of public goods	–$5,000	–$119,000

Source: Francine D. Blau and Christopher Mackie, eds., *The Economic and Fiscal Consequences of Immigration (Washington, DC): National Academy Press, 2016), Table 8-11.*

It may seem preferable to replace arbitrary assumptions about the "future path of taxes and government spending" with more sophisticated expert opinion about what the future will look like, such as the Congressional Budget Office fiscal projections for the next 75 years. Doing so would seem to provide the veneer of a seal of approval by experts in fiscal matters. Nevertheless, it is worth remembering that CBO forecasts are often wrong—*and sometimes they are very wrong even in the very short run*. As an example of the experts' fallibility, consider a news report dated October 19, 2015, about enrollment in ObamaCare insurance programs:

> The Obama administration is having trouble selling insurance plans to healthy people… . Last Thursday, the administration predicted enrollment for 2016 will be less than half what the Congressional Budget Office predicted in March.[14]

The CBO's inability to forecast in March 2015 what would happen seven months later is not reassuring. It would not be too cynical to surmise that calculations based on their 75-year fiscal projections of taxes and government spending would be as useful (or useless) as the calculations based on any other set of arbitrary assumption about the fiscal future of the United States.

The fact that different scenarios in Table 9.3 generate both large negative and large positive numbers does not necessarily imply that the "true" effect somehow hovers around zero. The variation instead reflects our ignorance. We simply do not know which scenario is most realistic, how the path of taxes and government spending will evolve over the remainder of this century, and how spending in public goods reacts to large supply shocks.

Let me conclude by reemphasizing the obvious. It is very easy to manipulate the calculations and generate either very large fiscal gains or very large fiscal losses. For example, it is easy to generate a large deficit by charging immigrants for the cost of the public goods they receive. And it is equally easy to generate a large gain by playing around with the assumptions about future taxes and expenditures.

In my view, the sensitivity of the bottom line to this type of tweaking—a tweaking that is extremely tempting in the contentious immigration debate—makes the entire exercise futile, particularly because we have little clue about how immigrants affect the cost of providing public goods and we have no clue about the future path of taxes and government spending.

3. AND IN THE END …

THE MOST CREDIBLE estimate of the immigration surplus—the increase in native wealth resulting from immigrant participation in the productive life of our country—is about $50 billion

annually. As long as we focus on economic effects, the bottom line that really matters will contrast this surplus with the fiscal impact. If immigration is a boon on the fiscal side, with immigrants paying far more in taxes than they take out, the $50 billion gain will increase, and will increase dramatically, if we can place any trust in some of the long-run estimates. However, if immigration is a net loss fiscally, as is certainly the case with the short-run estimates, the immigration surplus will quickly start dwindling, and the net gain could get dangerously close to zero and perhaps become negative.

If we take the most conservative estimate of the short-run fiscal impact seriously, the fiscal burden essentially offsets the $50 billion surplus, so that immigration barely affects the size of the "economic pie" accruing to natives. In the long term, the estimates of the fiscal impact are far too dependent on arbitrary assumptions to make them a reliable basis for any kind of cost-benefit calculation. The most credible evidence, therefore, suggests that it is not far-fetched to conclude that immigration is a net economic wash.

This conclusion contradicts the narrative that immigration is good for everyone. It also contradicts the claim that immigration is harming the average American. Instead, the reality is much more nuanced. Although the mythical average person may be unaffected, immigration creates many winners and losers. This redistribution of wealth—in an economy where the size of the native economic pie remains relatively fixed—is the key insight I have gleaned from decades of research on the economics of immigration. After all is said and done, immigration turns out to be just another government redistribution program. And this lesson sheds a lot of light on which groups are on which side of the immigration wars.

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* Cash benefits include Temporary Assistance for Needy Families (TANF), Supplemental Security Income (SSI), or "general" assistance given by cities and counties to persons in dire need.

† Full disclosure: I was a member of both NAS panels.

‡ There were 9.9 million immigrant households and 89.7 million native households in 1996. The finding that immigration cost each native household $300 implies that the total costs were $26.9 billion. There were 18.4 million immigrant households and 106.3 million native households in 2015, implying that the total cost due to the larger immigrant population was $50 billion, or $470 per native household.

§ The 2016 panel also found that the estimated burden increases considerably (to perhaps $300 billion) if immigrants are charged for their share of federal expenditures; see Francine D. Blau and Christopher Mackie, eds., *The Economic and Fiscal Consequences of Immigration* (Washington, DC: National Academies Press, 2016), Tables 9-12a and 8-2.

¶ The 1997 NAS report assumed that immigrants did not increase the cost of public goods.

The panel also estimated the fiscal impact separately for immigrants in different education groups. Regardless of the scenario, the admission of a foreign-born high school dropout generates a fiscal loss, and the admission of a college graduate is fiscally beneficial.