**COMMON SENSE OR POPULAR IMAGE**

Two competing ways of looking at the question of immigrants and the public fisc are apparent. One is the popular image of immigrants as culprits, fueled by a handful of studies and advanced by those calling for restrictions on immigration. The other is a common-sense perception of immigrants as net contributors, promoted by many economists and espoused by pro-immigrant forces. Those calling for immigration restrictions claim that immigrants impose net costs on taxpayers. This argument focuses on the fiscal impact of immigrants on the public sector, and suggests that immigrants consume more in public services such as education, public assistance, health care, and infrastructure than they contribute in taxes. California Governor Pete Wilson champions this complaint in forceful terms:

What are the results of this irrational and self-contradictory federal immigration policy which rewards illegal immigrants for violating U.S. law?

We don't have to speculate about this. The results are painfully clear...
• Because federal law requires it, California state and federal taxpayers pay over a billion dollars per year to educate illegal immigrants.
• Because federal law requires it, California state and federal taxpayers pay well over 3/4 of a billion dollars per year for emergency health care of illegal immigrants.
• Because safety requires it, California taxpayers pay half a billion dollars per year to imprison or jail illegal immigrants who by themselves could fill 8 state prisons to design capacity. . . . We can no longer allow compassion to overrule reason.¹

Even then-Governor Mario M. Cuomo of New York, a second-generation American known for praising immigrants, sounded a similar note in a 1994 radio interview, saying: “They are part of our strength. They will be a nourishment for our future. . . . They are also expensive.”² Other critics of immigration are more apocalyptic. Glenn Spencer, a cofounder of Citizens Together, an anti-immigrant group in Southern California, warns: “What we’re faced with here is an out-and-out invasion of the United States of America. . . . We’ve got to stop it . . . People don’t want to admit it, but the numbers are there. We’re essentially importing poverty.”³

One manifestation of the popular image that immigrants are costly are the lawsuits recently filed on behalf of some states against the federal government for the “costs” of immigrants. Under the direction of Governor Pete Wilson, California has filed a number of lawsuits against the federal government seeking reimbursement for the costs of imprisoning undocumented felons and for providing emergency health care to undocumented residents. Governor Lawton Chiles of Florida has also ordered his state attorney general to sue the federal government to “recoup the money Florida is forced to spend on social services” for undocumented immigrants. Before she was defeated, then-Texas Governor Ann Richards, decided to join in the suit.⁴ While some of the complaints are lodged specifically to recover the costs of undocumented aliens, others are aimed at legal immigrants and refugees as well.

These governors can point to several reports that purport to demonstrate just how costly immigrants—documented and undocumented—are. Two of the most publicized are a report prepared by the Internal Services Department of Los Angeles County and Donald Huddle’s paper.⁵ But the research of others, including that of the Urban Institute, questions the methodology and findings of these reports.
The popular image of immigrants as a drain on our public coffers does not agree with the way many economists have come to think about the role of immigrants. Immigrants are generally understood to contribute more in taxes than they consume in public services. In order to properly explain the effect of immigrants on the public sector, one must account for all taxes paid and services received over their life spans; on the average immigrants more than pay their way. According to President Reagan’s Council of Economic Advisors, one has to consider not only the tax contributions of immigrant workers, but also the fact that the improved income of native workers who have benefited from immigrants means a reduction in benefit payments and an increase in tax payments. The “net fiscal spillover” is greater in the presence of immigrants than without immigration.6

Much of this is premised on the assumption that most immigrants are young, of working age, energetic, and motivated to succeed. They are a self-selected group imbued with the work ethic, arriving without aged dependents and with few children, and producing more than they consume. Of course one might not buy the assumption that all immigrants are highly motivated workers. Persons with drive and motivation might well seek their success at home. And many migrants without economic drive and motivation may simply be following a spouse or relative. But regardless of these concerns, the fact is that most immigrants are young and of working age, although we probably do need to know much more about different groups at different times to judge their motivations.

Using Social Security as an example, the benefits of young, hard-working immigrants are apparent. Since immigrants begin working soon after arrival, they begin adding to the Social Security fund immediately. Their own eventual receipt of benefits dozens of years later does not negate the immediate benefit to native workers. By the time the immigrant retires, her children are contributing to Social Security, and a dollar paid out in the distant future is worth less now.7 So native workers receive a “one-time benefit” from immigrants who become instant workers and contributors.8 Thus, a recent analysis of the Social Security system reveals that largely immigrant Asian Pacific American and Latino populations contribute more and receive far less in transfers from the Social Security system than their white counterparts; indeed, without Latino and Asian Pacific American contributions, the precarious Social Security system would be even more shaky.9
IMMIGRANTS: THE NATION’S BENEFACTORS

Before launching into a description of recent methodology wars, consider a review of public sector costs conducted through 1991. Generally speaking, national studies which took into account all levels of government reveal that immigrants are not a financial burden on the native population. They put in more than they take out. As with their native counterparts, most of the taxes paid by immigrants go to the federal government. The understanding is that many of these federal tax dollars are returned to the states in the form of bloc grants for various programs. State studies were mixed, because some states take on more responsibilities than others. Analyses at the local level found that all residents—citizens and immigrants alike—were a net fiscal burden.¹⁰

Consider also a commonsense framework espoused by economists concerning the efficiency, human potential, and economic stimulation provided by immigrants.

IMMIGRATION AS WELFARE-ENHANCING

Immigration is almost always beneficial if one looks at the big picture. The reasons are standard (i.e., the efficient flow of labor allows countries to specialize in comparative advantage production, as individuals with those specialized skills emigrate to take advantage of different countries’ areas of specialization). Pursuant to market principles, output increases and productivity improves with immigration in a competitive economy. Restrictions on immigration might be inefficient overall, even though they might benefit certain low-wage native workers, or for that matter, more skilled workers.¹¹ Beyond efficiency, the increased business profits from immigration can foster further investment which leads to even more growth.

IMMIGRANTS, THE STOCK OF USEFUL KNOWLEDGE, AND HUMAN POTENTIAL

Perhaps the most important quality that immigrants provide is their varied “contribution to our stock of useful knowledge.” The more minds available, the greater the sources of information, the greater the possibility for innovation and technology, and thus the greater the potential for increased productivity. Recent studies of Silicon Valley show that our
nation's leadership in the high-tech industry is directly related to the creativity and ingenuity of immigrant engineers and entrepreneurs. Variety is a key to invention, and immigrants bring a variety of perspectives. The fact that immigrants come as young adults with several productive years ahead of them, and from different countries, means that their contributions will likely be immediate (i.e., the first generation's one-shot contributions to Social Security) and varied. This distinguishes immigration's contribution to the stock of knowledge and human potential from that resulting from mere population increases among natives.

Bigger and more variety are better where population is concerned. This notion—that the bigger and more varied the population, the greater the scientific knowledge and output—could explain why the United States produces more scientific knowledge than, for instance, smaller and more homogeneous Sweden. Likewise, highly populated India, despite its poverty, has one of the largest scientific communities.

INCREASED CONSUMPTION AND STIMULATION OF INVESTMENT AND TECHNOLOGY

In contrast with the Malthusian presumption that increasing numbers of people impose a negative effect on the income of all others, immigrants are better viewed as additional consumers who increase the market size for consumption goods, thus leading to greater production efficiency and investment. Increased numbers of consumers result in more research and development, new technology, a more specialized division of labor, and eventually an increase in output.

Although one must recognize the potential for diseconomies of scale due to congestion, in general population growth results in the development and adoption of better technology and innovation to overcome or avoid congestion. In fact some technology for avoiding those problems probably already exists, but society has to be pushed (e.g., with the threat of congestion) before adopting the new technology.

1. THE LOS ANGELES STUDY

Pursuant to a 1993 resolution by the Los Angeles County Board of Supervisors, the Internal Services Department was asked to study the effects of four groups: recent legal immigrants, amnesty immigrants,
How Much Do Immigrants Cost?

undocumented workers, and the citizen children of the undocumented. The purpose of the study was to determine the costs and overall impact of these groups on county services and school districts, while also providing estimates as to government revenues, taxes, and fees attributable to the groups. But the study group acknowledged a major limitation imposed by the parameters set forth by the Board of Supervisors: research was limited to estimating costs and revenues in fiscal year 1991–92. Thus, the study represented a “snapshot analysis” of the fiscal impact of immigrants rather than a long-term picture.  

The researchers found that although the four groups comprised 25 percent of Los Angeles County’s total population,17 they accounted for 30.9 percent of the county’s total costs (for the Department of Health Services, justice-related departments, Department of Public Social Services, and Department of Mental Health).18 But these immigrants paid only $139 million in tax revenue to Los Angeles County, which meant, according to the researchers, that immigrants represent a net cost of about $808 million per year to the county. The report acknowledges that the groups accounted for $4.3 billion in aggregate taxes, for a net benefit, but that most of the revenue went to federal coffers. But by their calculation that figure is only 8.7 percent of the total revenues generated for all levels of government (county, state, federal) by the entire county population. Even considered separately, each group constituted a net cost at the county level. See table 1.

Although the LA Study has a number of problems, the report is forthright and readers can understand the basis and method of research. However, the bottom line is that its headline-inspiring conclusions as to costs are only based on estimates of local costs and revenues associated with immigrants. Thus, the only conclusion that the report is capable of arriving at is that immigrants, like the rest of the population, take more locally than they contribute locally. The costs and revenues analysis is likely to be different when total contributions—including those at the federal level—are considered. But this study did not measure total costs and benefits.

2. THE URBAN INSTITUTE: A DIFFERENT LOOK AT COSTS AND REVENUES

In response to the LA Study, researchers from the Urban Institute issued a separate report on Los Angeles County.19 In calculating tax contribu-
TABLE 1. LOS ANGELES STUDY

Los Angeles County Population (1992)

<table>
<thead>
<tr>
<th>Category</th>
<th>Figures</th>
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<tbody>
<tr>
<td>Recent Legal Immigrants</td>
<td>630,000 (6.9%)</td>
</tr>
<tr>
<td>Amnesty Immigrants</td>
<td>720,000 (7.8%)</td>
</tr>
<tr>
<td>Undocumented</td>
<td>700,000 (7.6%)</td>
</tr>
<tr>
<td>Citizen Children of Undocumented</td>
<td>250,000 (2.7%)</td>
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</tbody>
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Net County Costs (30.9% of total county costs)

<table>
<thead>
<tr>
<th>Category</th>
<th>Figures</th>
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<tbody>
<tr>
<td>Recent Legal Immigrants</td>
<td>$352 million</td>
</tr>
<tr>
<td>Amnesty Immigrants</td>
<td>$194 million</td>
</tr>
<tr>
<td>Undocumented</td>
<td>$308 million</td>
</tr>
<tr>
<td>Citizen Children of Undocumented</td>
<td>$92 million</td>
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</tbody>
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Estimated Costs to School Districts (23% of total school costs)

<table>
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<tr>
<th>Category</th>
<th>Figures</th>
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<tbody>
<tr>
<td>Recent Legal Immigrant Children</td>
<td>$331 million</td>
</tr>
<tr>
<td>Amnesty Children</td>
<td>$123 million</td>
</tr>
<tr>
<td>Undocumented Children</td>
<td>$368 million</td>
</tr>
<tr>
<td>Citizen Children of Undocumented</td>
<td>$662 million</td>
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Total Revenues (8.7% of total revenues to all levels of government)

<table>
<thead>
<tr>
<th>Category</th>
<th>Figures</th>
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<tbody>
<tr>
<td>Recent Legal Immigrants</td>
<td>$1.9 billion</td>
</tr>
<tr>
<td>Amnesty Immigrants</td>
<td>$1.5 billion</td>
</tr>
<tr>
<td>Undocumented</td>
<td>$0.9 billion</td>
</tr>
</tbody>
</table>

Revenues Generated to Each Level of Government

<table>
<thead>
<tr>
<th>Category</th>
<th>Figures</th>
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<tbody>
<tr>
<td>County</td>
<td>$139 million</td>
</tr>
<tr>
<td>State</td>
<td>$1.2 billion</td>
</tr>
<tr>
<td>Federal</td>
<td>$2.6 billion</td>
</tr>
<tr>
<td>Other Local</td>
<td>$356 million</td>
</tr>
</tbody>
</table>

Revenues Generated to Los Angeles County (10% of total)

<table>
<thead>
<tr>
<th>Category</th>
<th>Figures</th>
</tr>
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<tbody>
<tr>
<td>Recent Legal Immigrants</td>
<td>$56 million</td>
</tr>
<tr>
<td>Amnesty Immigrants</td>
<td>$47 million</td>
</tr>
<tr>
<td>Undocumented</td>
<td>$36 million</td>
</tr>
</tbody>
</table>

...
long-term immigrants pay the remaining $6.9 billion, representing 18.1 percent of the taxes for a group comprising 15.2 percent of the population.21

Estimated revenues from recent immigrants exceed the LA Study estimates by $848 million (or 30 percent). This is particularly significant because the Urban Institute’s recent immigrant group is really a sub-group of the LA Study’s immigrant population. We would therefore have expected that the Urban Institute’s estimates of total tax contributions of immigrants would be smaller than those of the LA Study. Instead, the Urban Institute calculation for this figure was one-third larger! This translates into $3,066 per person, as opposed to the LA Study’s estimate of $1,637. This is because in some cases immigrants make dramatically higher tax payments per person than the LA Study assumed.

As to costs, Urban Institute researchers found that the costs to the county of recent legal immigrants are between $80 million and $137 million less than the LA Study estimate. In a procedural leap of faith, the LA Study attributed to recent legal immigrants the costs of county health and public social services used by all legal immigrants. That is, in these two categories, the data include costs incurred by both pre- and post-1980 immigrants. Apparently the Department of Health Services was not able to separate cost estimates for legal immigrants by date of entry. Now, if it were the case that these two types of services are consumed heavily by long-term immigrants (which seems reasonable, as the two categories are basically health and schooling), then clearly these estimates overstate the costs of immigrants as defined by the study. Not only is this procedure biased, but it is also inconsistent with the LA Study’s exclusion of the tax contributions made by long-term immigrants from the contributions attributed by the study to recent immigrants.

Even using three alternative assumptions, the Urban Institute researchers disagree with the LA Study findings of costs. First, assuming that the per person cost for recent immigrants is the same as for long-term immigrants, the cost for recent immigrants turns out to be roughly the same as their population share. Second, assuming that the average cost of health and public social services for recent immigrants is twice as high as that for long-term immigrants, the cost due to recent immigration accounts for more than their population contributes, but is still 28.6 percent less than the LA Study estimate. Finally, using the (unlikely) assumption that the average cost of health and public social services is three times as high for recent immigrants as for long-term immigrants,
How Much Do Immigrants Cost?

the Urban Institute calculation of the costs of recent immigrants still comes out almost 23 percent lower than that of the LA Study.

The Urban Institute report points out several weaknesses in the methodology of the LA Study: (1) Studying only county-level costs and revenues neglects the fact that the federal and state governments frequently give transfer payments to the county governments. (2) The LA Study procedure or methodology invariably predicts that every group, not only recent immigrants, will use more in county services than they contribute to county revenues. This contradicts Los Angeles County’s legal obligation to balance its budget and occurred because the LA Study omitted major revenue sources, including commercial property taxes.  

(3) The LA Study incorrectly allocates the benefits of public goods evenly to all individuals. The benefits likely go disproportionately to businesses, which are predominantly owned by nonimmigrants. (4) Further, even if public goods are evenly distributed, calculating their costs per family rather than per person would be more accurate. Since immigrants tend to live in larger families, this would again bring the “cost” of immigrants down.

In addition to these criticisms, a number of other problems can be seen in the LA Study. First, the contributions of immigrants may be significantly underestimated by the study’s failure to take into consideration: (1) any of the revenue (and the tax therefrom) generated by immigrant-owned businesses; (2) any “multiplier effect” from state revenues of immigrant-owned businesses that create jobs for residents; (3) estimated remittances to home countries; (4) the extent to which certain immigrants (especially undocumented ones) pay their taxes and then do not file for their refunds; (5) any of the revenues paid while amnesty recipients were undocumented; and (6) the indirect benefits of immigration through economic growth (i.e., the effect on county revenue of immigrant consumer dollars circulating in the economy was not calculated). Likewise, the study’s treatment of “long-term” immigrants as simply members of the overall population underestimates immigrants’ tax contributions.

The exclusion of some of these factors is perhaps understandable, since some may be difficult to measure. However, it suggests that the findings have to be taken with an additional grain of salt. Just as the Urban Institute came up with a range of results given various assumptions about health and social service costs, one could come up with a measure of indirect benefits by deriving some type of “multiplier” on the
taxes paid by immigrants to estimate their total contribution to the economy.

Second, the LA Study's number of immigrants suffers from two shortcomings. First, the study is not dynamic in nature. By lumping pre-1980 immigrants into the general nonimmigrant population, the study undercuts the long-term benefits that immigration might have. It only represents a "one-year snapshot" of the impact of a small proportion of immigrants on some county revenues and services. Indeed, the actual net benefit of an immigrant is the present value of her contributions less the present value of her costs. If the latter exceeds the former in early years, but the former exceeds the latter in later years, immigration might represent a net benefit to society—but this study would assess it as a net cost. The second numbers problem is the use of exact estimates for inexact numbers of immigrants. The study would have been fairer if ranges of numbers of immigrants had been used to present different possibilities rather than a specific number. Consequently estimate figures inspire little statistical confidence.24

Overall, the methodology of the Urban Institute report inspires more confidence, and demonstrates that the "net cost" of immigrants at the local level is not nearly as large as the LA Study suggests. Certainly, the federal government is the primary recipient of tax benefits from immigrants.25

3. THE HUDDLE REPORT AND RESPONSES

Donald Huddle's 1993 report and his op-ed pieces based on the report have received extensive national attention. With a good deal of fanfare, the report has been touted as the "first comprehensive study of the public sector costs of legal and illegal immigration."26 He claims: "This report examines comprehensively the current yearly net public assistance costs of immigrants who have settled in the country since 1970 and, prospectively, the net costs of all post-1970 immigrants who are expected to be settled in the United States by the year 2002. Included in the estimates are the costs of public assistance to U.S. residents who are displaced from their jobs by immigrant workers."27

As the LA Study did, Huddle purports to examine both the costs and contributions of immigrants. He examined twenty-two federal, state, and local government assistance programs, including a package of ten county welfare and health services open to legal immigrants, refu-
Huddles, asylees, and amnestied aliens, and fourteen programs open to undocumented aliens. He (1) calculated the annual nationwide cost per beneficiary—citizen and immigrant—for each program, using 1991 government data, or the most recent available, adjusted for inflation; and (2) determined the probability of immigrant assistance in each program.28 He also looked at five federal and state assistance programs available to U.S. residents who might be displaced from jobs by immigrants. (However, the method of this adjustment was not made clear.) Data on poverty and public assistance use were taken from samples of the 1990 census and from other researchers.

To calculate revenues from immigrants, Huddle considered federal, state, and local income, sales, excise, and property tax contributions for legal, undocumented, and amnestied aliens. Tax payments of the various immigrant subpopulations were estimated by using individual and household income and tax data in the 1992 Statistical Abstract and the LA Study. By Huddle’s calculation, immigrants pay 53.4 percent of their taxes to the federal government; 38.3 percent to the states; and 8.2 percent to local governments.29 Huddle also believes that legal immigrants pay a considerably greater share of their taxes as income taxes than do undocumented ones, whose major revenue contributions are through sales and excise taxes.

As discussed earlier, Huddle tries to calculate the cost of public assistance to displaced U.S. workers in a questionable fashion, by assuming that for every hundred immigrant workers that enter the labor market, twenty-five low-skilled U.S. workers lose their jobs; and by estimating the average cost of assistance programs for a displaced worker. He claims that 741,000 low-skilled U.S. workers were displaced by undocumented immigrants, and another 265,000 by amnestied alien workers,30 and that the one-year public assistance cost is $6.1 billion for the 1.06 million U.S. workers displaced by legal immigrants, and $5.8 billion for those displaced by undocumented and amnestied aliens. Finally, Huddle makes a number of growth projections.31

Huddle’s main conclusions are: (1) the poverty rate of immigrants is 42.8 percent higher than for natives; (2) immigrants as a group are 13.5 percent more likely to receive public assistance, and their households receive 44.2 percent more public assistance dollars than do native households; (3) net immigrant costs in 1992 at the county, state, and national levels were $42.5 billion for the 19.3 million legal and illegal immigrants who have settled in the United States since 1970, compared to $20.20
billion in taxes contributed. See table 2. The biggest expense was for primary and secondary public education, followed by Medicaid and county social and health services. Concluding that taxes contributed by immigrants were small (with his findings relying greatly on the LA Study conclusion), he claims that both legal and undocumented immigrants cost Texans more than $4 billion in 1992 for education, health care, and other services beyond what they paid in Texas. See table 2.

In comparison to immigrants, the total cost of native-born consumption of the same federal, state, and local programs in 1992 was $595.7 billion, while their contribution to the same tax categories was $637.3 billion. The excess of taxes paid over cost yields a per capita surplus of $120 for the native-born population.

As to undocumented immigrants, Huddle found that in 1992 the 4.8 million undocumented consumed $10.1 billion in assistance and services, while they paid an estimated $2.5 billion in taxes. More than 70 percent of the $10.1 billion was for public education, county health and welfare services, and criminal justice. The average individual cost of public assistance for undocumented persons was $2,103, while per capita tax payments were only $519. Huddle attributed this deficit to "dramatically higher poverty rates (151 percent higher than native born rates), lower tax compliance, and [a] relatively high propensity to use public assistance programs and services not barred to them." As to amnestied aliens, Huddle felt that they resembled the undocumented in terms of low skills and weak earning power, but are "no longer barred from public assistance." Thus, he calculated their public assistance cost at $5.51 billion for 1992.

As in the case with the LA Study, the Urban Institute has issued a separate report responding to Huddle’s findings. This report (1) uses more widely accepted numbers of immigrants (e.g., the INS estimate of the undocumented population), (2) finds that Huddle grossly understates the taxes paid by immigrants, (3) argues that Huddle overstates the government benefits received by immigrants, and (4) disagrees with Huddle’s hypothesis that immigrants displace native workers. As a result, the Urban Institute finds that immigrants are net contributors to public coffers. See table 3.

The Urban Institute points out four major flaws in Huddle’s estimates of immigrant tax contributions. First, Huddle relies on the LA Study’s per capita taxes for Los Angeles County though the earlier Urban Institute report had disclosed that that study understated tax collections.
How Much Do Immigrants Cost?

**Table 2. Huddle Report**

<table>
<thead>
<tr>
<th>1. Legal immigrants who have settled since 1970, including refugees, asylees, and other humanitarian entrants.</th>
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</thead>
<tbody>
<tr>
<td>Estimated population size in 1992</td>
</tr>
<tr>
<td>Net cost for 1992</td>
</tr>
<tr>
<td>Net cost for 1993–2002 decade (in 1993 dollars)</td>
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<tbody>
<tr>
<td>Estimated population size in 1992</td>
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<tr>
<td>Net cost for 1992</td>
</tr>
<tr>
<td>Net cost for 1993–2002 decade</td>
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<thead>
<tr>
<th>3. Amnestied aliens, formerly undocumented aliens legalized under the general and farm workers’ amnesties of 1986.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated population size in 1992</td>
</tr>
<tr>
<td>Net cost for 1992</td>
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</table>

<table>
<thead>
<tr>
<th>4. Overall assistance and displacement costs. (Taxes Paid have been subtracted in totals 1–4.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cost for 1992</td>
</tr>
<tr>
<td>Net cost for 1993–2002 decade</td>
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<table>
<thead>
<tr>
<th>5. U.S. workers displaced from jobs by immigrants. (The following costs are included in totals 1–4.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Displaced workers in 1992</td>
</tr>
<tr>
<td>Cost for 1992</td>
</tr>
<tr>
<td>Cost for 1993–2002 decade</td>
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</tbody>
</table>

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<tr>
<th>6. Total revenues from immigrants</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992 contributions</td>
</tr>
<tr>
<td>Contributions, 1993–2002</td>
</tr>
</tbody>
</table>

for immigrants by 30 percent. Huddle further used the contributions of 1980–90 legal immigrants to estimate taxes paid by 1970–92 immigrants, even though those who entered in the 1970s are known to have higher incomes than those who entered a decade later.\(^{37}\) Second, Huddle estimates national immigrant income by erroneously assuming that since natives in Los Angeles earn more than average natives nationally, immigrants in Los Angeles must do the same.\(^{38}\) Third, Huddle tries to adjust for the different levels of taxation in Los Angeles than found in the rest of the country by taking the ratio of national per capita taxes to per capita taxes paid in the county by natives and immigrants combined, but fails to recognize that per capita taxes paid depends on income levels as well as taxation levels, further underestimating taxes paid by immi-
TABLE 3.  URBAN INSTITUTE STUDY

Response to Huddle

[INS Estimate of Undocumented Population 3.2 million]
Benefits from Immigrants
  Taxes paid $ 70.3 billion
Costs for Immigrants
  Government services $ 41.6 billion
  Displacement $ 0.00
Net Effect + $ 28.7 billion

Response to LA Study

Los Angeles County Population (1990)
  Recent Immigrants 1.53 million (17.4%)
  Long-term Immigrants 1.34 million (15.2%)
  Natives 5.94 million (67.4%)

Federal and State Income Taxes for 1989
  Federal Income Taxes
    United States $432.9 billion
    Los Angeles County $16.4 billion
  California State Income Taxes
    California $15.8 billion

Estimated Taxes Paid by Residents of Los Angeles County
  Natives $ 27.7 billion
  Long-term immigrants $ 6.9 billion
  Recent immigrants $ 3.7 billion
  (immigrants paid 27.7% of total taxes of LA County)

Each adult paid in taxes
  Natives $6,902
  Long-term immigrants $5,386
  Recent immigrants $3,066

grants. Finally, in calculating revenue, Huddle leaves out five of the thirteen taxes included in the LA Study—FICA (Social Security and Medicare taxes), unemployment insurance, vehicle license and registration fees, and federal and state gasoline taxes—which account for 44 percent of the revenues from immigrants in Los Angeles. Both the Huddle and LA Study also omit corporate income tax, local income tax, commercial property tax, and utility taxes. Thus, using a corrected version of Huddle's revenue framework, the Urban Institute finds that immigrants contribute an additional $50 billion.

The Urban Institute finds that Huddle overstates immigrant costs by
relying on the LA Study’s overestimate of per capita service costs for recent legal immigrants (making his cost estimate higher by $2.5 billion); using inflated participation rates in such programs as Headstart (his costs for programs such as Headstart is thus overstated by $1 billion); applying a school attendance rate based on five- to seventeen-year-olds for immigrants aged five to nineteen (his estimate for schooling costs is thus wrong by over $2 billion); and using the national average for Medicaid payments as a measure for immigrants who tend to be younger than the average population (making his estimated costs off by $5 billion). While acknowledging that Huddle may have understated some costs by omitting Social Security payments to immigrants who entered after 1970, the Urban Institute argues that Huddle’s displacement costs for native workers should be completely disregarded because every other credible study concludes that no such displacement occurs. Indeed, the Urban Institute submits that immigrants “actually create jobs through entrepreneurship and consumer spending.”

Huddle’s report has some other serious problems. Perhaps most noteworthy is its failure to provide information on the bases of his calculations that may be duplicated or followed by other researchers interested in the subject. Second, many of Huddle’s announced figures are statistically misleading. Estimating both the current and future tax contributions from immigrants on the basis of figures from 1992, a recessionary year, systematically underpredicts expected future tax contributions. The use of Los Angeles County data to analogize to the rest of the country is undoubtedly misleading, since the immigration population there has unique characteristics. Then again, the LA Study’s estimate of per capita school spending ($4,672) is somewhat lower than Huddle’s estimate ($5,603), even though Huddle uses categories of the LA Study to come up with his estimates.

Finally, the Huddle Report’s announcement of the overall public costs of immigration—for example, $7.614 billion in 1992 since undocumented immigrants consumed $10.1 billion of public services at both the state and federal levels while paying a total of only $2.5 billion in taxes—is misleading. Ignoring for the moment the error of using a single-year snapshot analysis of the costs of immigrants and accepting the figures as accurate, there are strong reasons to question whether this comparison is even meaningful. First, since the U.S. economy has been plagued with a growing debt the past twenty years or so, a similar deficit between consumption and taxes would be found for any group. Thus, if
we take any group, for example middle-class white Americans, and do a similar comparison as Huddle did, we would expect such a gap. In fact according to the estimates from the January 1993 Economic Report to the President, total government expenditures at the state and federal levels exceeded total receipts by $295 billion.

Moreover, Huddle's analysis ignores any future benefits from immigration. For example, it is almost certainly true that during any given year the consumption of public services outweighs the taxes paid by the children of U.S. natives. But it would be very misleading to derisively call this deficit "the cost of children." Also, Huddle's cost of immigration ignores the source of the deficit. While the concept of excluding immigrants to lower the "cost of immigrants" sounds logical, the costs can be reduced by raising taxes or reforming social programs as well. Huddle provides no guidance as to why either of these policies (or others) are inferior to restrictions on immigration.

Huddle's growth rate calculations and general thrust are reached by assuming that everything stays the same over time except for some exponential growth in the population of migrants. This exponential growth will obviously exponentially increase a present problem when projected into the future. This analysis overlooks immigrants' own incentives to move off public assistance, and the fact that immigrants tend to be younger than the average population and will improve their skill level and job prospects as they age. In other words, in a report such as Huddle's, what might be accurate for a short time horizon is not necessarily true in a longer time frame over which immigrants age, gain skills, and potentially become more productive. Broadening the time horizon and focusing on the particular (microeconomic) details opens up a range of alternative policy responses such as improved schooling, improved access to capital, and/or a jobs program.

Overall, large-scale, broad-brush (macroeconomic) analyses such as those by LA County and Huddle are arguably too general and lacking in an appreciation of the institutional context within which immigration occurs. For example, immigrants often have stronger social networks and family ties than other groups. These "family values" should affect how we view immigrants in comparison to other groups. They should also affect immigrants' ability to adapt and potentially improve their productivity. Once institutional details are introduced into the analysis, some of the generalizations in these reports may be put into proper perspective.
By way of comparison, the U.S. Department of Justice specifically asked researchers at the Urban Institute to examine the costs attributable to undocumented aliens for incarceration, public education, and emergency medical care in seven states—Arizona, California, Florida, Illinois, New Jersey, New York, and Texas. Their estimates were carefully based on the same methodology and sources of governmental data for all states, to ensure that differences across the states reflected true differences in costs and revenues. They found that the incarceration cost of undocumented aliens in the seven states was $471 million in 1994, that $3.1 billion was spent on public education for undocumented children in 1993, and that $445 million was expended on Medicaid costs for undocumenteds in 1993. Yet the seven states only collected $1.9 billion from undocumented aliens in sales taxes, property taxes, and state income taxes. With 1.4 million of the estimated 3.4 million undocumented in the United States, California bears the brunt of the costs. But the researchers were quick to point out that they had not been asked to calculate federal tax contributions nor to measure the positive impact that such aliens might have on the states' economies as workers, business owners, or consumers.

**QUESTIONING EDUCATIONAL COSTS**

The Los Angeles Study also included public schooling in its complaints about the costs of immigrants. See table 1. But its calculation of schooling costs is also suspect. The researchers derived these figures by using 1990 census data to calculate the ratio of school-age population to population under age eighteen for people identified as either "Asian/Pacific Islander or Hispanic." The ratio (0.68) was multiplied by the under age eighteen population of each of three immigrant groups to get estimates of school-age population. They then used another estimate (weighted mean) of school participation rates to estimate the participation rate (0.86). They subtracted the number of students in the three immigrant groups (331,000) from 1,441,000, the total number of students in Los Angeles County public schools to get the number of other students. Then they multiplied the number of students in each group by $4,480 (the estimated cost per pupil in 1991–92) to get an estimate of total educational costs.

Several problems can be raised with respect to the LA Study's
schooling costs. (1) The study’s estimates of schooling costs (public facilities costs) does not take into account the difference between fixed costs that have to be spent regardless of the size of the student body and costs that can vary with the size of the student body. Assuming substantial fixed costs associated with public schooling, then attributing a pro-rated amount to the new immigrant population and claiming that it represents “added” costs of education imposed by immigrants is inappropriate. To what extent fixed costs are fixed costs as opposed to variable costs, however, remains a question mark. This is an economies of scales notion. The cost of building a school is fixed irrespective of the number of immigrants; indeed, in a sense the costs per pupil is reduced with the addition of immigrant students. (2) The costs of educating U.S. citizen children are being added to the costs of educating undocumented children and the entire population is being labeled “illegal” for the purposes of cost calculations. (3) It is misleading to characterize education costs as accruing to L.A. County—they accrue to the school districts and are paid mostly by the state. (4) Also, the number of immigrant students and the cost per immigrant student have been overestimated. Since, as the study acknowledges, schools do not record the immigration status of students, the figures used by the LA Study are estimates based on questionable assumptions. (5) The study infers an 86 percent public school participation rate among immigrants, based on an assumption about Asian and Latino students. But the dropout rate for Latinos and Asians is understated, thus inflating the number of students. (6) Multiplying the resulting numbers by the average cost per pupil is also misleading since L.A. Unified School District spends more per student in predominantly white neighborhoods.

Perhaps the biggest problem with the LA Study’s characterization of schooling costs is its static nature. By taking a snapshot of a single year of costs, we lose sight of the purposes of education and of the need to view these costs as an investment in human capital that pays long-term benefits. By immigrating, an individual may earn free education in the United States, but at the same time she will be increasing her future earnings potential. As a result, the expected amount of future tax revenues contributed by the educated immigrant is likely to increase. The short-run cost of educating immigrant children produces taxpayers tomorrow. The Supreme Court took this perspective in Plyler v. Doe, by holding that undocumented children have a right to public education. The Court found it “difficult to understand what would be accomplished
by creating and perpetuating a subclass of illiterates within our borders, adding to problems and costs of unemployment, welfare, and crime. Whatever savings are wholly insubstantial in light of the costs involved to these children, the state and the nation.” Native students also benefit from the opportunity to interact with individuals from other countries.\(^46\)

In their consideration of this human capital approach to education, Paul Ong and Linda Wing remind us of the multiple purposes behind our society’s social contract to educate our children: to transmit knowledge, culture, and skills from one generation to the next, to enable children to care for the future. Only a foolish country would not do its best to educate all its children. Even the most cynical should realize that the payoff comes in terms of productivity and tax contributions. The fair way to view the so-called “cost of education” is as an investment in human capital. Only after considering the person’s entire life—including the working years when the education pays off—is it fair to judge whether the educational expense was too costly. In order to begin an inquiry into the payoff, Ong and Wing cite the higher than average earnings and property tax payments of Asian Pacific Americans (which is tied to educational attainment). The implications are clear: educating the children of immigrants and immigrant children pays off in the long run.\(^47\) In short, children should be viewed as investment opportunities.

**Immigrants and the Welfare Distortion**

1. **The Huddle Report**

Huddle’s sensational findings—that the poverty rate of immigrants is 42.8 percent higher than for natives, and that immigrant households receive 44.2 percent more public assistance dollars than do native households—are also misleading and likely inaccurate.

First, by claiming that since 18 percent of immigrants and 12.6 percent of natives are below the poverty line, the poverty rate of immigrants is 42.8 percent higher than for natives, Huddle is statistically misleading. This percentage is not an absolute percentage of immigrants but the incremental percentage over natives; in other words, even using Huddle’s figures, the difference is really only 5.4 percent. Likewise, Huddle uses a misleading and unclear calculation in his conclusion that immigrants as a group are 13.5 percent more likely to receive public
assistance, and after adjusting for the amount received, are 44.2 percent more likely. He finds that heads of households in immigrant families are more likely to receive public assistance than are natives (5.9 percent instead of 5.2 percent)—which gives him his 13.5 percent figure. In reality, the difference is only 0.7 percent and the probability of an immigrant receiving public assistance is nearly identical.

Huddle's estimation of the probability of immigrant public assistance is particularly troubling. According to his report, the probability of immigrant public assistance was based on a national rate adjusted by an “estimation of the extent of variation in immigration rates from the overall rate.” If that estimation was taken from other studies, they are not identified by Huddle. Thus the figure is more likely Huddle's own calculation. While sometimes one has no alternative but to make such calculations, the margin of error is quite high, and should be acknowledged. In fact, because these estimates are what economists would call “point” estimates, little statistical significance is attached to them, and one should hesitate to make policy based on them.

The undocumented population is for the most part not eligible for the fourteen programs (i.e., Aid to Families with Dependent Children, or AFDC) cited in Huddle's calculation for assistance received by undocumented aliens. He also incorrectly assumes that amnestyed aliens, unlike the undocumented, are no longer barred from public assistance, and thus includes all the federal, state, and local programs in calculating the costs of these immigrants. But amnestyed aliens are not eligible for all these programs.

2. THE JENSEN STUDY

Other studies give a more in-depth, nuanced, and accurate sense of the public assistance usage of immigrants. Leif Jensen, a sociologist and anthropologist, analyzed immigrants' poverty levels and public assistance utilization by looking at Public Use Sample (PUS) Data from the 1960, 1970, and 1980 censuses. Public assistance utilization was defined as income derived from AFDC, general assistance, and Supplemental Security Income (SSI). For the definition and measurement of poverty Jensen used both an absolute and a relative measure. He identified an immigrant family as one in which the head of the household was foreign-born.

On balance, Jensen concluded that immigrant families are not dis-
proportionate users of welfare benefits, either with respect to their propensity to receive them or the amount of benefits received among welfare families. If anything, the evidence suggests that immigrants represent less of a drain on public assistance resources than do natives. Some of Jensen’s most noteworthy findings were:

1. Absolute poverty among U.S. families declined sharply during the 1960s, but this decline was far less impressive among immigrant families. In fact, poverty increased among immigrant families between 1969 and 1979, probably because of an increase among post-1965 immigrants. That this was primarily driven by an increase among recent white immigrant families rebuts the assertion that the declining economic status of succeeding waves of immigrants is largely due to the changing racial composition of immigrants. Breaking down the data by race, significant increase in absolute poverty was indicated for white and black recent immigrant families, but not Latino and Asian recent immigrant families. Jensen’s analysis shows that white and black recent immigrant families had the sharpest increase in poverty.

2. Although the findings indicate that poverty among recent immigrants has increased, this does not mean that turning to public assistance and social services has increased. For the population as a whole, immigrant families (except recent immigrants) were significantly less likely to receive welfare benefits than otherwise comparable natives. And disregarding race, long-term immigrants are significantly less likely to receive assistance, while recent immigrants were not more likely than natives to use welfare. Recent black immigrants were significantly less likely and recent Asian immigrants (combined) were significantly more likely than their respective native counterparts to receive welfare, while recent white and Latino immigrants differed little from natives. Thus, new immigrants appear to be no more likely to receive public assistance than anyone else, even after accounting for racial differences.

3. Descriptive tables reveal that taken as a group, immigrant families (including refugees) had only minimally higher public assistance recipiency rates compared to native families. Looking at these immigrant-native comparisons by race revealed that immigrants had greater welfare receipt among Latino and Asian families, while natives had higher receipt among white and black families.

4. A comparison between 1969 and 1979 groups who had been in the country the same amount of time provided little support for the contention that recent immigrants in 1979 were disproportionately more
likely than their counterparts in 1969 to receive assistance. There were a few exceptions to this generalization. Recent Asian immigrants in 1979 were much more likely than recent Asian immigrants in 1969 to receive assistance, due in part to the influx of Southeast Asian refugees in the post-1975 period. Recent black immigrants were also disproportionately more likely to receive welfare than their 1969 counterparts. Finally, the descriptive tables documented a decline in the receipt of welfare by the most recent group of Latino immigrants. A preference for friendship and kinship networks over government transfers would explain this negative effect of immigrant status on welfare receipt for Mexicans.

5. For the population as a whole as well as with race groups (except Asians) the greater total use of benefits by immigrants was explained by their tendency to live in states with higher welfare benefits. Some argue that immigrants prefer to live in states with higher welfare benefits in part to take advantage of these greater benefits. But various models revealed no significant effect of state benefit levels on the probability of welfare receipt.

Jensen’s work represents relatively rigorous research techniques to determine the incidence of both absolute and relative poverty among immigrants. One problem is that his data would now be regarded as fairly old (i.e., they do not really measure the “new” immigration subsequent to the 1980 census), and there is evidence of an increase in public assistance utilization over the years. Also, his combining of much of the data—especially mixing refugees together with immigrants—produces some misleading findings, as refugees are the only major non-native population eligible to participate broadly in the nation’s welfare state from the date of entry.

3. Urban Institute and Welfare

Researchers at the Urban Institute have also looked at poverty and public assistance usage among immigrants. In addressing poverty, they demonstrate the differences among the immigrant communities. While 46 percent of recent immigrants (post-1980) from refugee-sending countries have less than a high school diploma, as do 75 percent of immigrants from the major source countries for undocumented immigrants, only 26 percent of legal immigrants fall into the low educational group, which is close to 23 percent for natives of the United States. Households headed by immigrants entering before 1980 have average incomes of
about $40,900, which is about 10 percent greater than native households. Recent immigrant households average only $31,100 ($23,900 for undocumented and $34,800 for documented immigrant households).56

As to welfare, the Urban Institute researchers conclude that participation by immigrants arriving in the past ten years is lower than is commonly believed. The 1990 census indicates that the share of recent immigrants (i.e., those arriving between 1980 and 1990) using public assistance (defined here as AFDC, SSI, and General Assistance) is 4.7 percent, slightly higher than the 4.2 percent rate for natives. But they separated the foreign-born into those from “refugee countries,” 57 and all others, and found that 15.6 percent of those from refugee countries were receiving welfare. On the other hand, only 2.8 percent of immigrants from nonrefugee sending countries during the 1980s were reported to be using public benefits in 1989—much lower than the welfare participation rate of natives (4.2 percent).

In further analysis, Urban Institute researchers have found that while immigrants use welfare at slightly higher rates than natives, non-native use is concentrated among two groups: elderly immigrants and refugees. The higher rate among refugees is understandable since they are fleeing persecution and have fewer economic or family ties in the United States than other immigrants. There is also substantial overlap between elderly and refugee benefit use, as refugees account for 27 percent of immigrants over 65 who receive public benefits. Welfare use among working-age immigrants (18–64) who did not enter as refugees is about the same as for natives.58 While elderly Asian Pacific immigrants maintain a higher-than-average welfare use, they have an extremely lower-than-average rate of Social Security use, suggesting that many were unable to enter at an age that enabled them to earn Social Security credits as workers.59

In sum, welfare use among recent arrivals is largely concentrated among refugees, who have strong equitable claims to its receipt. Furthermore, welfare use among the overall foreign-born population is marginally higher than the native population, but when we account for social and economic characteristics, immigrant households are no more likely to receive public assistance than native households.

4. GEORGE BORJAS

With this understanding, recent findings by George Borjas of higher-than-average welfare use among immigrants can be placed into context.
When his data were broken down by country of origin, those from Vietnam had a high rate, but the rates for immigrants from the Philippines, China, and India were about the same as that for natives. The welfare rate for Korean immigrants was only half that of natives. Furthermore, there may be some concern with his data source: the Survey of Income and Program Participation (SIPP). The SIPP surveys only 50,000 persons in 20,000 households, with an emphasis on program participation. The sample size is relatively small and its Southeast Asian category includes only Vietnamese. In fairness, another data source such as the Current Population Survey (CPS) ought to be reviewed as well. The CPS survey includes Cambodians, Laotians, Thais, and Vietnamese in its Southeast Asian category and contains a question about parents’ country of birth, which would allow an examination of the second generation as well. From the Borjas and Urban Institute findings, one can also infer that second-generation Americans use welfare at a rate much lower than the general population. This suggests that their parents used welfare only as a means of transition; therefore, high use among parents might be less of a policy concern since it did not become a way of life for the next generation of citizens.

5. GAO

In response to inquiries from members of Congress contemplating welfare reform in early 1995, the General Accounting Office reported figures that at first blush contravene those of Jensen and the Urban Institute. Since Jensen’s data only went through the 1980 census, the GAO revelation that between “1983 and 1993, the number of immigrants receiving SSI more than quadrupled” was stunning. And it reported that 6 percent of “all immigrants,” compared to 3.4 percent of citizens, were receiving SSI or AFDC in 1993.

The GAO report received immediate attention from the media and was cited by policymakers looking for ammunition to support welfare reform intended at least in part to disqualify legal immigrants from welfare. Yet the GAO’s reporting method was quite misleading. For example, while the GAO reported that 6 percent of “all immigrants” were receiving welfare, readers concerned with distinguishing refugees from lawful permanent residents had to look at the data carefully and make their own computations. Indeed, to the casual reader or listener, the GAO’s use of the term “all immigrants” might be synonymous with
"lawful permanent residents," but the GAO was using the term to include refugees, lawful permanent residents, and those permanently residing "under color of law" (deportable aliens whose departure is of low priority to the INS). The GAO’s terminology was misleading because many people distinguish immigrants from refugees. Using figures available in different parts of the GAO report, when one separates lawful permanent residents for independent calculation, as the Urban Institute researchers attempted in their report, probably fewer than 5 percent of lawful permanent residents receive welfare compared with 3.4 percent of citizens. But the 5 percent figure is probably still too high, because GAO researchers acknowledge that the lawful permanent resident numbers likely include individuals who first entered the country as refugees and who subsequently applied for and received lawful permanent resident status. Furthermore, the number of lawful permanent resident recipients was also based in part on estimates made by the Congressional Budget Office of which current citizen recipients had once been immigrants.

These studies underscore the fact that the use of public programs (e.g., low-income assistance, social insurance, education, and health services) or public services (e.g., fire and police protection) by immigrants does not impose any unusual fiscal burden on society. Although individuals vary, while an immigrant’s demands (and that of her family) for public education and other services may grow over time, so will the immigrant’s ability to pay for those services. In fact, the presence of immigrants may actually lighten the burden on natives of financing public programs and services, given the productivity, age, and family composition of immigrants.

The Reagan Council recognized that international migrants pay their own way from a public finance standpoint. Most come to the United States to work; government benefits do not serve as a major attraction. Their initial dependence on welfare benefits is usually limited, and they finance their receipt of Social Security retirement benefits with years of contributions.

These empirical wars demonstrate the complexity of determining the exact contributions and costs of immigrants. However, they strongly demonstrate that, in the aggregate, immigrants are net contributors in the public sector. And as with comparable native groups, they consume more than they contribute at the local level, but do so at a much lower rate than headlines trumpeting the LA Study or Huddle Report findings.
would have us believe. Likewise, the weight of the evidence demonstrates that immigrants are no more likely to receive public assistance than natives, yet another contradiction of the popular media image. The fact that the bulk of immigrant taxes go to federal coffers must be considered in evaluating the true "cost" of immigrants, but does not lend support to restrictions on immigrant access to public services or to the United States itself. Instead, that is an issue that state governments must work out with the federal government.

**Undocumented Immigrants: The Greatest Net Contributors**

The concern that the undocumented population will swallow up the social service system may be totally erroneous. Undocumented immigrants may contribute more than documented immigrants because the participation of undocumented in social services such as old-age entitlement is insignificant. Since many undocumented workers enter without their families, they are much more economical than low-wage workers with families.

As President Reagan's Council of Economic Advisors noted, undocumented immigrants "may find it possible to evade some taxes, but they use fewer public services." This is not surprising since undocumented immigrants are ineligible for most public benefits. Among the few programs for which they are eligible are emergency medical care under Medicaid (if they are otherwise eligible) and the Women Infant and Child nutrition program.

Likewise, immigrants who were given amnesty under the 1986 legalization law (IRCA) and those granted Temporary Protected Status under the Immigration Act of 1990 (temporary refuge from countries in the midst of civil strife) are barred from most federal benefit programs. Those who were legalized under IRCA's five-year-prior-residence provision may not receive most federally funded public assistance programs, including AFDC, Medicaid, and Food Stamps for a period of five years. Those who were legalized under IRCA's Special Agricultural Worker program face the same restrictions, but may receive Food Stamps.

In addition, even before the recent changes in welfare, legal permanent residents were effectively barred from most cash assistance programs during their first five years in the United States because during
this period their sponsor’s income was “deemed” to be theirs when determining eligibility for public benefits. Under certain circumstances, they can also be deported if they use public benefits during their first five years in the country. And their use of public welfare can hinder their efforts to bring their relatives into the United States.

The only major non-native population eligible to participate broadly in the nation’s welfare state from the date of entry is refugees. However, refugees only represent roughly 10 percent of newcomers entering each year. Because they are fleeing persecution, their departure is usually unplanned; and because they often arrive traumatized by war, providing them with support upon arrival makes sense.

Undocumented aliens contribute in another way. Undocumented farm workers enable many U.S. crops to remain competitive with those of other countries. Even though restricting such labor might encourage mechanization, the result could be increased farm production costs. Since capital-intensive production is not necessarily more cost effective, competitiveness could suffer, thereby endangering more jobs and raising consumer prices.

Of course the line between appreciating and exploiting undocumented workers may be murky. This issue is addressed more fully in chapter 7.

**Immigrants and Capital**

Implicit in the L.A. Study’s complaint about educational costs is the general concern that immigrants benefit from public capital and assets provided by native workers. Before viewing immigrants as opportunists, one might distinguish “production” capital used by immigrants on the job from “demographic” capital, or governmental expenditures on public services such as schooling or health care for which increased use by immigrants would impose additional costs. As for production capital, immigrants actually boost capital investment rather than dilute it. Some immigrants may also bring production capital with them for investment. The results would be different if immigrants worked mostly in the government sector because in that case immigrants would benefit as much as natives. However, citizenship restrictions on all federal jobs and on many state jobs preclude this possibility.

In terms of demographic capital associated with the public sector,
much of public capital’s costs have already been expended or “sunk.” Therefore immigrants’ use of this capital will not affect natives unless a “congestion” or overcrowding effect exists. This effect, however, will not occur with all forms of expenditures on public services. For example, most federal capital (e.g., intercity highways, space exploration, and the Statue of Liberty) are public goods rather than demographic capital. The use of these examples of public capital by natives is not affected by immigrants. But most state and local capital (e.g., schools and hospitals) are demographic and subject to congestion. More immigrants may cause more need for such capital if “service standards are not to fall.” It does “cost” natives to equip immigrants with demographic capital, but this cost is smaller than the benefit natives get from immigrants whose use of welfare services is low and contribution of taxes high.22

Whether the presence of an immigrant has a favorable or unfavorable effect on natives with respect to a particular public asset is of little relative concern. Although public assets can be valuable, the value of the attached public debt can be significant as well. The immigrant not only shares the public asset, but also shares the obligation to repay the public debt.23

THE CONTRIBUTIONS OF IMMIGRANT ENTREPRENEURS

A glaring oversight in the highly publicized studies that purport to calculate the costs and revenues of immigrants is the lack of information on the economic contributions of immigrant entrepreneurs. However, a series of recent studies have initiated an attempt to quantify this important part of the economy. Recent immigrant entrepreneurs from the Middle East, Latin America, and the Asia Pacific region have continued the pattern established by earlier immigrants and refugees from Europe. In fact, although the 1992 uprising in South Central Los Angeles often highlighted the impact on Korean American businesses, at least a third of the businesses affected were Latino-owned. Total sales and receipts of Asian Pacific American-owned businesses alone in the late 1980s were over $33 billion annually, with a payroll of $3 billion and over 350,000 employees. And while many Asian Americans may be best known for their “mom and pop” stores and while recent refugees from Cambodia and Vietnam have come to dominate doughnut stores and manicure shops, Asian Pacific American entrepreneurs have played an instrumen-
tal role in the success of Silicon Valley's high-tech industry. Their background has also helped to attract about $300 million a year in venture capital investment from abroad.\textsuperscript{74}

The contributions that immigrant entrepreneurs make to local taxes by creating businesses that generate sales taxes, improving property values—thus raising property taxes, and creating employment—thereby increasing income taxes are no doubt significant. And the psychic values that these businesses bring to sections of inner cities that they have helped to rejuvenate are likely incalculable.

**IMMIGRANTS, TRADE, AND A GLOBAL PERSPECTIVE**

1. IMMIGRANTS AS A FORM OF TRADE BETWEEN NATIONS

As with the international trade in goods, services, and financial claims, international migration connects domestic and international markets. The free flow of resources in response to market signals leads to specialization by countries in their areas of comparative advantage production, and thus produces efficiency and economic gains for both producers and consumers. Both parties to an exchange of people, goods, and capital gain from trade and, in the absence of restrictions, the exchange will continue until the potential benefits are exhausted. The movement of labor across borders can be a partial substitute for the movement of goods and capital. When international trade in goods or capital flows is hindered, pressures are heightened for people to migrate instead.\textsuperscript{75}

Consider an example offered by Alan Sykes in which one country is endowed with more capital relative to another. If trade were allowed, comparative advantage would predict that capital-intensive goods would be produced in the capital-rich country and labor-intensive goods in the labor-intensive country, leaving no incentive for immigration. However, if trade between the countries were constrained or completely absent but migration were allowed, laborers from the labor-wealthy country could exploit the high returns to labor in the capital-intensive country for producing the labor-intensive good that is not available on the international market. As such the immigrants represent an opening of trade between the immigrant group and the capital-intensive country—a type of international trade between countries that subverts tariffs. This clearly
benefits the host country, benefits the immigrants, and probably hurts the labor-abundant country until it overcomes some of the original constraints to trade between the two.

In the presence of trade, however, the situation may change. In general, the influx of immigration could help or hurt the host country. Though no general conclusion is possible, the models with trade included arguably tend to reinforce the conclusions of the models without it. The former certainly do not provide any reason to suppose that the residents of the country of immigration would systematically lose as a consequence of the influx. On a more concrete level, however, two caveats must be considered. First, immigration is likely to benefit the owners of capital in the host country, since it creates the ability to compete in the labor-intensive good, thereby giving the host country a better “threat” point in trade. If the owners of capital are foreign, immigration can then turn things around on the host country, giving most of the benefits to the foreign owners. Second, if capital is more mobile than labor, then host country owners of capital would likely move their plants elsewhere even though keeping the plant in the host country and importing laborers is globally efficient. The loss borne by the host country is likely to surpass the gain in the country to which the capital was transferred. Thus, Sykes argues that whenever a factory that would have been best located domestically with foreign workers moves abroad due to immigration restrictions, a net loss occurs. If the factory were built domestically, the taxes that would be paid on the returns to investors in the factory would exceed the incremental costs of government services necessitated by its presence.76

2. THE IMPACT OF IMMIGRATION RESTRICTIONS ON COMPETITIVENESS

Concern for global economic competitiveness leads to little support for immigration restrictions. Arguments supporting immigration restrictions to protect jobs are no different from those in favor of protectionist trade barriers. The results are similar as well—costs imposed on consumers, investors, and other workers—even though the demand for some native workers may increase.77

In the presence of unfair trade practices, U.S. firms are often pressured to employ low-wage immigrant workers in order to remain com-
petitive. Price competition in the international economy makes the use of low-wage workers attractive to those industries that must respond to such market conditions.  

3. EVALUATING IMMIGRATION AND ECONOMIC ISSUES GLOBALLY

Economists remind us that immigration may be viewed from a global as well as a national perspective. In considering economic policy, the "global" and the "national" perspectives may actually be in conflict. So even in the face of significant national unemployment in a host country, immigration to that country is not necessarily undesirable from a global welfare perspective, unless the immigrants are close substitutes for the chronically unemployed.

The national welfare benefits immediately from the immigrant who is excluded from welfare payments until some time after she pays taxes. A large country such as the United States that is attractive to immigrants enjoys a competitive advantage in the international labor market that can be exploited in the form of immigrant admissions.

The Department of Labor reminds us that immigration has always been a vital part of the "internationalization of the U.S. economy:"

The timing, direction, volume, and composition of international migration, therefore, are fundamentally rooted in the structure and growth of the regional economy in which the United States is most actively involved. Flows of labor occur within an international division of labor with increasingly integrated production, exchange, and consumption processes that extend beyond national boundaries. Within this international division of labor, sectors of national economies become integrated into international production processes and specialize in particular tasks. At different historical moments, a country may be an exporter of labor and/or capital, or a net importer of such resources and a leader in the export of manufactured commodities.

Unquestionably, the volume and nature of immigration to the United States have been largely influenced by the role of the U.S. market in the regional and global domains.