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THE ALIEN PAYOFF

The surprising new bottom line on immigration's costs and benefits

Dateline: Chicago

In the debate over immigration, Francisco Castro could be a Rorschach test. An immigrant from Mexico, Castro supports his wife and three kids by working long hours for minimum wage at Central Market, a Los Angeles fruit and vegetable mart. "I'm always working," he says, "from 7 in the morning until 6 at night, every day but Wednesday." Those who favor immigration would see Castro as a boon to the economy. Those who oppose immigration would see him as undercutting American wages.

These two opposing economic views have played a major role in the debates about immigration for over a decade. Both pro- and anti-immigrant groups have deployed fancy econometric studies to prove that immigration is either hugely costly or hugely beneficial. But there has been no referee trusted by policy makers to decide who is right.

Last week, the respected National Academy of Sciences/National Research Council released a landmark report called The New Americans: Economic, Demographic, and Fiscal Effects of Immigration. Commissioned by the federal government as a guide through competing, often contradictory data, the report won't satisfy either the pro- or the anti-immigrant camps—but it does come to clear conclusions about some issues that have seemed murky. The report concludes first that for all the contentious arguments about the impact of immigration on the economy, its actual effect is not that great. "The costs to native-born workers are small, and so are the benefits," notes economist Richard Freeman of Harvard University, one of the report's authors. Second, the report finds that immigrants do impose substantial costs on large numbers of taxpayers—in the short run. But in the long run, when the bills for baby boomers' retirement come due, immigrants are likely to prove a tax blessing.

The report also notes that while the country as a whole benefits from immigrants, a few states, California in particular, bear a steep financial burden for assimilating them.
Lower fruit prices. There is little dispute about the economic value of highly skilled immigrants. Chinese engineers, Russian physicists, and Indian computer programmers earn high wages, increase the gross domestic product, and, to the extent their skills are not easily matched by those of native-born workers, increase America's per capita income. In other words, they make native-born workers marginally richer.

There has been a great dispute, however, about the economic contribution of low-skilled immigrants like Francisco Castro. The NAS report concludes that their labor does benefit the economy. But the average gain to each native-born American is relatively small. Most of the value of Castro's labor winds up in his own pocket. In the form of the wages he takes home. Those born in this country benefit only to the extent that Castro is willing to work cheaper than someone else. His lower wage translates into greater profit for the fruit vendor he works for, higher fees paid by the vendor to the owners of Central Market, and lower produce prices for shoppers at Central Market.

But for exactly the same reason, Castro's labor also exacts a cost. While the NAS report confirms recent studies showing that immigrants have no negative effects on the wages of most Americans, there is one exception: the very low skilled. Workers with less than a high school degree (who represent about 15 percent of the work force) earn wages that are somewhat lower (about 5 percent, according to the NAS) than they would be without competition from low-skilled immigrants. Though small, the effect contributes to one of America's more troubling social trends, the growing disparity between rich and poor.

The study found that the other losers are taxpayers in California, Florida, Texas, and a few other states where most immigrants live. The taxes many newcomers pay fall short of covering the costs of the government services they use—primarily health care and public schools for their children. In California, the average household pays an extra $1,178 in taxes because of immigrants.

But the story doesn't end there. Past studies have shown that immigrants generate a growing share of taxes the longer they are here. The NAS report confirms these findings by projecting, in a way never done before, the effects of immigrants and their descendants on tax revenues over decades. According to these projections, each additional immigrant and his or her descendants will provide $50,000 in extra tax revenues over their lifetimes (chart, Page 22). That's equivalent to about $80 for every American household.

Up the ladder. A good example of the pattern the study found is the Martinez family. Reginaldo Martinez was a migrant worker from Mexico who, in 1954, took a job in a candy factory in Chicago. His wife, Luz, and their six children joined him in this country in the 1960s. The whole family, plus various relatives, lived in a two-bedroom apartment. The parents slept in one bedroom, the four boys in the other, the girls and a cousin in the dining room. The children were envious of an aunt who moved into the pantry, since she had a "private" room.

As the Martinez children advanced up the ladder of affluence, the clan became a fiscal asset. Each sibling earns (with his or her spouse) between $40,000 and $60,000 yearly. Juan is a foreman at a pipe-fitting factory. Javier is a conductor for the Chicago Transit Authority. Reginaldo Jr. joined the Air Force and is now an electrical engineer. Five of the six siblings own homes within blocks of one another in the bustling Mexican-American neighborhood of Little Village in Chicago. The average annual property tax payment per home is $1,300. Each sibling pays an average of $1,705 in Social Security taxes. The family's six kids have had 18 children among them, the oldest of whom are now in college. Alejandro, Juan's eldest, is in graduate school in microbiology at the University of Illinois-Urbana-Champaign. Each generation has done better than the last, contributing that much more in taxes.

But the real tax benefits of immigration, according to the National Academy of Sciences report, won't be seen for a few decades. At that point, future wage earners will have to pay the retirement and medical costs of aging baby boomers. That burden will be split among those working and paying taxes at that time. The burden would fall more lightly on all shoulders if people born here had children at a higher rate than they do now. But if fertility rates remain low, the only way to get more future workers will be through immigration.

Impact aid. The debate over immigration will hardly end with this economic report. Noneconomic questions related to culture, values, and assimilation will play a larger role. Still, Jeff Passel, an immigration policy expert with the Urban Institute in Washington, D.C., predicts that the debate will "move away from the general 'is immigration good or bad?' question toward a focus on specific problem areas." Policy makers might try, for instance, to limit the influx of low-skilled immigrants like the Castro family while boosting the number of those with higher-level skills. That might relieve wage pressures on low-skilled Americans while increasing the overall economic and fiscal benefits of the immigrant population. Having too many high-skilled immigrants, however, might someday reduce wages for high-skilled native-born workers.
The National Academy of Sciences report might also cause Washington lawmakers to revisit a proposal that almost became law last fall: federal "impact aid" to the handful of states with large immigrant populations. These states have long griped that they have to pay for education, health care, and other government services for immigrants whose entry into the country is controlled by the federal government. The NAS report strengthens these states' claims that they lose out from immigration even as Washington stands to reap a revenue gain in the long run. Pro-immigration forces might concede some of the points made by their opponents and support putting money in places like California. Reducing the costs of immigration to those it hits hardest is the surest way to preserve the benefits to everyone else.

**The bottom line on immigration**

Add the taxes that an immigrant and his or her descendants are likely to pay over their lifetimes. Subtract the cost of the government services they're likely to use. The result: Each additional immigrant produces a net revenue gain to government. But the federal government gets most of the benefit. States and localities lose.

<table>
<thead>
<tr>
<th>Impact on state and local treasuries:</th>
<th>-$25,000</th>
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</thead>
<tbody>
<tr>
<td>Impact on federal Treasury:</td>
<td>+$105,000</td>
</tr>
<tr>
<td>Total impact:</td>
<td>+$80,000</td>
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</tbody>
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Unless he arrives with little education, an immigrant will pay more in taxes than he costs in services.

<table>
<thead>
<tr>
<th>Education Level</th>
<th>Impact</th>
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<tbody>
<tr>
<td>Less than high school:</td>
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<tr>
<td>High school graduate:</td>
<td>+$51,000</td>
</tr>
<tr>
<td>More than high school:</td>
<td>+$198,000</td>
</tr>
<tr>
<td>Overall:</td>
<td>+$80,000</td>
</tr>
</tbody>
</table>

Sources: National Academy of Sciences/National Research Council report The New Americans

PHOTO (COLOR): Holding his own: Francisco Castro supports his family on minimum wage.

By Paul Glastris, Warren Cohen and Dana Hawkins

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