

T E S T I M O N Y

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Public Costs of Immigration

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SUMMARY

The testimony summarizes in the form of four propositions, the key conclusions and suggestions from a review of recent estimates of the net federal, state, or local costs of immigration. Two questions were examined: why do these estimates vary so widely and what should be done if we wanted to develop more credible estimates?

The first proposition is that these studies agree on only one point: immigrant relative contribution to public revenues. Specifically, there is general agreement that currently illegal immigrants contribute less in public revenues than those who were amnestied. They, in turn, contribute less than legal immigrants, who contribute less than the native-borns. In short, the suggestive findings that illegal immigrants are net consumers of public services are more a product of their low incomes than their immigration status.

The second proposition is that there are three major reasons why there is no agreement, and hence no reliable estimate, of the size of the net public costs of illegal immigration, or of immigration as a whole for that matter. Studies differ in (1) their estimates of the size and incomes of the immigrant population; (2) the range of public services included; and (3) the range of public revenues included.

Disagreements on such basic parameters as number of immigrants, their incomes, and their tax rates are in turn due to: the lack of reliable information available on (a) the **actual** use of all relevant services provided to immigrants and members of their families differentiated by immigration status; and (b) the **actual** payroll deductions; income, sales, property, and excise tax payments; and fees, and other revenues raised from each individual immigrant family again differentiated by immigration status.

The third proposition is that until and unless we develop a consistent accounting framework and collect additional data on service usage and revenues, a definitive answer to the question of how much immigrants actually cost to the public fisc cannot be given. Based on the results of a pilot survey of immigrants to address these questions, we concluded that a survey designed specifically to provide reliable data on sensitive questions including immigration status and incidence of tax filings is feasible, but would be expensive.

Our last proposition is an observation with important potential policy implications: the current focus on public costs of immigration represents a departure from past practice. It has brought to the fore the question of whether such costs ought to be considered in determining which and how many immigrants should be allowed to enter the country annually.

TESTIMONY

Mr. Chairman and members of the House Subcommittee on Immigration and Claims, thank you for the opportunity to testify on the public costs of illegal immigration, and of immigration more generally.

I have brought with me a report,¹ we have just completed, reviewing the recent estimates of the net federal, state or local costs of immigration made by various entities. We asked why these estimates differ so widely and what should be done if we wanted to develop more credible estimates. I will summarize our key conclusions and suggestions in the form of four propositions.

The first is that these **studies agree on only one point**: immigrants' relative contribution to public revenues. Specifically, there is general agreement that currently illegal immigrants contribute less in public revenues than those who were amnestied under the Immigration and Reform Act of 1986 (IRCA). They, in turn, contribute less than legal immigrants, who contribute less than the native-borns. In short, the suggestive findings that illegal immigrants are net consumers of public services are more a product of their low incomes than their immigration status.

The following will illustrate the point. On the revenue side, an illegal immigrant family of four that makes an income of say \$12,000 a year will pay no or a minimal federal and state income tax, and it will contribute a modest amount of sales, property taxes, and possibly social security payments. On the cost side, however, this family with two children in public schools will cost more than \$10,000 annually for education alone. Note that this accounting would not differ if the family in question was native-born instead of being foreign-born.

The second proposition is that there are three major reasons why there is **no agreement on**, and hence no reliable estimate, of **the actual size of the net public costs** of illegal immigration or of immigration as a whole:

- Studies differ in their estimates of the size of the immigrant population residing in the United States. These estimates differ by as much as 50 percent. The studies also differ in their estimates of incomes and of the tax rates applied to them.
- Studies differ in the range of public services they include in their estimates. The most inclusive studies account for 80 percent of all federal, state, and local public expenditures, while the least inclusive include about 40 percent of total public expenditures. These variations account for the full differentials across studies in estimated public costs per immigrant.

¹ The Fiscal Costs of Immigration: Analytical and Policy Issues, Georges Vernez and Kevin McCarthy, RAND, DRU-958-1-IF, February 1995.

None of the studies reviewed include the full range of public services. Similarly,

- Studies differ in the range of public revenues they include from a low 45 percent of total public revenues to a high 75 percent. This variation accounts for about half of the differentials across studies in public revenues per immigrant.

Why can't analysts agree on what costs and revenues to include (or exclude) in making estimates of the public costs of immigration and why can't they agree on such basic parameters as number of immigrants, their incomes, and their tax rates? One reason is simply the **lack of reliable information available** on (a) the **actual** use of all relevant services provided to immigrants and members of their families differentiated by immigration status; and (b) the **actual** payroll deductions; income, sales, property, and excise tax payments; and fees and other revenues raised from each individual immigrant family again differentiated by immigration status.

In the absence of reliable data on these critical parameters, studies have made differing assumptions about the number of immigrants, their service usage, and their contributions to public revenues. Inaccurate assumptions can affect not only the magnitude of the estimates but also the direction of the net cost estimates.

For example most studies assumed that immigrants' use of public services is proportional to their numbers, regardless of their socio-economic and immigration status. However, RAND data collected from a 1991 sample of Salvadorian and Filipino immigrants residing in Los Angeles challenge this proportionality assumption. Overall, our data suggest that use of public services is generally not affected by immigration status, including illegal status. But it is affected by family income and family composition, particularly the presence of children under age five. In addition, immigrants' use of certain services such as libraries, public transit, parks and recreation, is affected by a range of factors--income, number of children, and English proficiency--that condition the immigrants' need for the service.

Another common assumption among the studies we reviewed is that incidence of tax payments and payroll deductions is uniformly high across income levels and immigration status. Our data, to the contrary, suggest that these parameters vary significantly with immigration status with illegal immigrants having the lowest incidence of payroll tax deducted and lowest incidence of federal and state income tax filing.

Another fundamental reason for the lack of agreement on the size of the net fiscal deficit or surplus caused by immigration is that analysts have not yet agreed on a **uniform accounting framework** defining (a) who is an immigrant,

and (b) which public revenues and public services, hence costs, ought to be included for the purpose of estimating the costs of immigration. As implied above, different decisions made in this regard can mean the difference between showing a net surplus or a net cost for any group of immigrants.

There are a number of legitimate reasons why agreement on such an accounting framework has been elusive to date. Only a couple are outlined below. Take for instance, the question of defining who is an "immigrant" for purposes of making estimates of costs of immigration at a given point in time. Certainly we can all agree that foreign-born non-citizens should be classified as immigrants for this purpose. But what about naturalized immigrants (those who have become citizens) or the native-born children of illegal and legal immigrants? There is a legitimate disagreement on how these individuals should be classified. On the one hand, the native-born children are (by U.S. Constitutional law) citizens, and from a legal perspective they are not immigrants. On the other hand, had their parents not immigrated to the United States they would not be in the country in the first place: thus from a pragmatic perspective they arguably should be counted with their immigrant parents for costs of immigration accounting purposes.

Take now the question of which public services or benefits ought to be included on the cost side of the accounting framework. A good starting premise might be that all public services should be included in the estimates, or at the very least, the exclusion of any one service ought to be justified. This has not, however, been the common practice. While most studies agree that all services provided directly to individuals, e.g., education, nutrition, and social services, should be included, very few studies include what are such major categories of federal expenditures as national defense, support of research and development, general government and administrative expenditures, and interest on the national debt.

Such exclusion may be justified on only one of two grounds--neither of which fully hold. Either immigrants do not derive any benefit from these services or the marginal costs of providing these services to immigrants is zero. The former assumption is questionable at best, and the latter assumption--even if closer to reality--implicitly assumes that native-born residents should subsidize the provision of these services to immigrants.

Social insurance programs such as social security present another source of accounting disagreement. The implicit argument for their exclusion is that these programs are self-funded. But these programs often have a redistributive function that provides disproportionate benefits to low-income immigrants and native-borns. In addition, the revenues from the special funds are often treated as general revenues.

Even when the decision is made to include social insurance expenditures in the cost estimates, there is still a decision as to whether those costs should be allocated on a current, intergenerational, or even lifetime basis. Because most immigrants are young and thus will not be eligible to receive social insurance benefits for several years, which cost allocation approach is used can make up to a tenfold difference in the estimate of these costs.

This leads into our third proposition: **until and unless we collect additional data on service usage and revenues (and develop a consistent accounting framework) the question of how much immigrants actually cost to the public fisc cannot be answered.** Resources would have to be provided to support a data collection effort to make an accurate count of immigrants by immigration status and generate reliable information on actual service use and revenue contributions made by immigrants. In the past, some have argued that collecting such data--particularly aimed at identifying immigration status, service usage, and payments of taxes--may not be feasible.

To see whether such problems can, in fact, be overcome, RAND undertook in 1991 a pilot survey of Salvadorian and Filipino immigrants residing in Los Angeles. Our pilot survey faced many of the same challenges, albeit on a smaller scale, that a national survey would confront. In developing the specific content of the survey, we focused on ascertaining and documenting the following: immigration status (e.g., illegal, temporary protective status, IRCA legalized, legal resident), employment experience, public service needs and use, tax contributions, family composition, language ability and use, and educational expectations and achievements.

What we have learned from this survey is contained in our report "Surveying Immigrant Communities: Policy Imperatives and Technical Challenges", a copy of which I left with the Subcommittee.² We concluded that a survey designed specifically to provide reliable data on sensitive questions including immigration status and incidence of tax filings that are critical for developing and assessing policy is feasible. It would, however, be expensive. A rough cost estimate based on our pilot study suggests that preparing and conducting a survey of 9,000 immigrants in nine sites across the country with the largest concentration of immigrants would cost some \$6 to 7 million. However, these costs are surely low compared to the gain in understanding the costs and the potential effects policy changes may have on states, localities, and immigrants. The latter constitute more than 40 percent of the population of some metropolitan areas and more than a quarter of the population of at least one state.

² Surveying Immigrant Communities: Policy Imperatives and Technical Challenges, Julie DaVanzo, Jennifer Hawes-Dawson, R. Burciaga Valdez, and Georges Vernez, RAND, MR-247-FF, 1994

Our last point is an observation with potentially broad policy implications: **the current focus on public costs of immigration represents a departure from past practice.** It has brought to the fore the question of whether such costs ought to be considered in determining which and how many immigrants should be allowed to enter the country annually. To date, these determinations have been primarily driven by long-term economic, humanitarian, and family reunification considerations.

Considering costs in immigration policy should redirect the current debate away from a focus on aggregate public costs of immigration--and hence aggregate numbers exclusively--to a renewed focus on individual and family factors that lead to high or low public service usage and the economic success of immigrants, not just in a single year, but over the entire course of their residence in the United States. In short, it would refocus the policy debate on the question of selectivity of immigrants and require looking at the costs and benefits immigrants generate over the long term, not just the short term as we seem to have been doing to date.