



Competitive Enterprise Institute

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Advancing Liberty – From the Economy to Ecology

October 25, 2011

No. 17

A FAIR Criticism

A Critique of the Federation for American Immigration Reform’s “The Fiscal Burden of Illegal Immigration on United States Taxpayers”

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The Federation for American Immigration Reform (FAIR) is an organization devoted to reducing immigration into the United States, both legal and unauthorized. Its publications criticize immigration along cultural, economic, and political lines. On the economic front, FAIR’s report, “The Fiscal Burden of Illegal Immigration on United States Taxpayers” by Jack Martin and Eric A. Ruark, estimates the total net costs of illegal immigration to U.S. taxpayers is \$113 billion annually.¹ The report has been widely cited by the media and policy makers.² However, FAIR’s report vastly overstates the costs of illegal immigration and totally ignores the benefits.

FAIR’s report argues for increased immigration restrictions as a way to address the federal budget deficit. However, it relies on poor methodology and contains numerous errors, which are outlined below.

Ignoring the Benefits. A pervasive oversight of FAIR’s research is the absence of meaningful comparisons between the fiscal costs and benefits of unauthorized immigration. FAIR states that educating unauthorized immigrants and their American-born children costs approximately \$52 billion a year,³ with \$2.1 billion of that spent by the federal government and \$49.4 billion by the states. Yet the authors do not account for any of the future taxes those individuals would pay as a result of their increased human capital.⁴ In 2008, the average person with a high school degree or GED earned \$7,208 more than a non high school graduate.⁵ Those with more marketable skills, education, and relevant experience face better labor market outcomes. The better the labor market outcome, the more taxes that individual will pay throughout their life.

Hispanics account for nearly 80 percent of the unauthorized immigrant population.⁶ FAIR estimates the number of U.S. citizen children born to unauthorized immigrant parents to be 3.4 million (this number and the method of determining it are critiqued below) with 1.3 million unauthorized immigrants who are themselves children.⁷

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Educational attainment of youths, by race and ethnicity, March 2009 (%)					
	All Youth	Hispanics	Whites	Blacks	Asians
High school dropout rate (ages 16-24)	8.3	17.2	5.7	9.3	3.7
High school completion rate (ages 18-24)	89.7	77.2	93.5	87.3	94.7
College enrollment rate (ages 16-24 with at least a HS diploma)	45.6	38.8	46.4	43.1	66

Source: *Between Two Worlds*, Pew Hispanic Research Center, December 2009, p. 48.

In 1997, the National Research Council (NRC) conducted the most complex attempt to estimate the fiscal net present value (NPV) of immigrants. For immigrants with at least a high school education, the NPV is greater for those who arrive at age 20 than as very young children, because they arrive already schooled, so American taxpayers do not subsidize their education. They also have practically their whole working lives ahead of them to work and pay taxes. The NRC used a NPV calculation to account for immigrants' life cycles. At different times in their life, people are net consumers or net contributors to U.S. governments. A snapshot of current net costs is not a good estimate of future net costs because those change dramatically over the life of every individual.

Baseline estimates of fiscal net present value of each immigrant by education and age of arrival (thousands dollars, adjusted for 2010)				
	Immigrant at Age of Arrival			
	0	20	21	40
Less than High School	83.4	45.9	9.73	-196
High School	128	203	175	-44.5
More than High School	163	400	463	183

Source: *The New Americans*, National Research Council, 1997, pp. 358-360,

<http://www.measuringworth.com/ppowerus/>.

The NRC used Current Population Survey (CPS) data. In theory, the data include unauthorized immigrants as the survey does not inquire about legal immigration status.⁸ Indeed, any study relying upon CPS, American Community Survey (ACS), or Census data cannot distinguish between legal and unauthorized immigrants. As the above chart demonstrates, the NRC clearly and unambiguously found that immigration by these classes of people at a young age is a net fiscal benefit to governments in the U.S. Those benefits peak in the early 20s and diminish as the age at which an unauthorized immigrant enters the U.S. increases.⁹ The taxes they pay over their lifetimes more than compensate for the social services they consume. The government's fiscal balance sheet has changed since then, but FAIR does not even bother to counter NRC's claims.

FAIR states that "most illegal aliens do not pay income taxes," without citing any study to support that assertion.¹⁰ FAIR ignores numerous government studies that show that most unauthorized immigrants pay taxes. In 2004, the Internal Revenue Service estimated that 6

million unauthorized immigrants, around 60 percent of the total, file tax returns each year.¹¹ The Social Security Administration estimates that half of all unauthorized immigrants pay Social Security taxes.¹² Several states assume, based on available data and economic models, that unauthorized immigrants comply with half of all income and payroll taxes.¹³ A large 2006 survey of unauthorized immigrants conducted by the Center for Comparative Immigration Studies at the University of California at San Diego found that 75 percent had taxes withheld from their paychecks, filed tax returns, or both.¹⁴

In an instance of astonishing myopia, FAIR states that tax collections, “would not disappear if the illegal alien population were to markedly decrease. ... Experience with immigration enforcement at job sites with many illegal aliens on the payroll has shown that those employers do not go out of business; they find other workers. That means that the tax collections continue after the deportation of the illegal alien family.”¹⁵ Yet that obscures half the picture.

Decreasing the number of immigrants—both legal and unauthorized—substantially decreases tax revenues from many sources for several reasons.

First, they purchase goods and services. If they are deported, they stop buying from the American businesses they previously frequented. That decreases profits for those businesses, which decreases tax revenues.

Second, many unauthorized immigrants actually own businesses. If business owners are deported, the resulting net effect is fewer taxpaying businesses and employees.

Third, FAIR seems to work from the assumption that there is a fixed number of jobs and that native and immigrant workers are perfectly interchangeable. For all the reasons listed above and more, the number of jobs in a society is not fixed. Jobs are a cost of production. Their supply depends on prevailing wages, marginal productivity of labor, supply and demand for inputs for goods and services produced, and other factors.

Furthermore, native-born and immigrant workers have different skill sets, strengths, and weaknesses which makes them complementary to each other, rather than competitors. Most unauthorized immigrants have fewer skills than almost all native-born Americans. Therefore, the two groups rarely compete in the job market. Native-born Americans tend to occupy jobs that require more skills, while unauthorized immigrants tend to occupy jobs at the lower end of the skills spectrum.

Because of those differences, diminishing the supply of immigrants decreases the productivity and wages of natives and immigrants alike. Immigrants—regardless of their legal status— increase economic efficiency because they are not perfectly substitutable for natives.¹⁶ Immigrant and native-born American workers are employed in different sectors of the labor market and trade for each other’s goods and services, deepening the division of labor and allowing for more specialization and greater economic efficiency. Deporting unauthorized immigrants diminishes that economic efficiency, which can slow economic growth and negatively impact tax revenues.

Fourth, unauthorized immigrants increase American GDP, which means higher tax revenues. The Texas Office of the Comptroller estimated in 2005 that removing all undocumented immigrants would decrease the state's GDP by \$17.7 billion.¹⁷ That means fewer consumers, fewer business owners, and fewer employees working and paying taxes. Blatantly declaring that removing 10.8 million people (2009 estimate) would have no effect on tax revenues should strain the credulity of even the most strident anti-immigration activist.

It also does not comport with most economics models. The U.S. Applied General Equilibrium (USAGE) model is applied to low-skilled immigrant labor¹⁸ and then used to estimate the impact of various policies.¹⁹ Policies that result in fewer low-skilled workers entering the U.S. result in higher unemployment, lower rates of economic growth, business closures, and permanent annual losses to the economy of about \$80 billion.²⁰ The impact on tax revenues is similarly negative.

FAIR ignored evidence of the enormous tax revenue paid by undocumented immigrants. Thus, its adumbration of costs is not a useful metric because it does not compare them to the benefits. FAIR's failure to examine the economic and fiscal benefits of undocumented immigration makes its study, at best, incomplete.

Dubious Numbers. FAIR's determination of costs is dependent upon a semi-accurate count of unauthorized immigrants and their children but FAIR consistently overestimates those numbers. FAIR calculates the number of children of unauthorized immigrants based on its estimate of 13 million total unauthorized immigrants in the U.S.²¹ That estimate is 2.2 million more than the 10.8 estimated by the Department of Homeland Security (DHS) in January 2009²² and 1.8 million more than the 11.2 million estimated by the Pew Hispanic Center for 2010.²³ (The Center for Immigration Studies, which shares FAIR's anti-immigration agenda agrees with the DHS estimate).²⁴ FAIR's sloppiness in this regard and its seeming ignorance of other estimates leads to large cost overestimates of unauthorized immigration.

FAIR's difficulty counting is not limited to its most recent study. Its 2005 report, "The Costs of Illegal Immigration to Texans," assumes there are 225,000 undocumented immigrant children in Texan schools,²⁵ a number extrapolated from the Urban Institute's 1994 estimate of 93,907.²⁶ One of the authors of the Urban Institute study, Dr. Jeffrey Passel, estimates that the real number of undocumented immigrant children in Texas in 2005 is approximately 140,000.²⁷ FAIR's estimates were 61 percent higher than that of one of the most respected demographers in the field—on whose estimates FAIR supposedly relied.

In its recent report, FAIR compounds this error by adding inflated numbers onto previously inflated numbers. Its 2010 report estimates that there are 468,436 children of unauthorized immigrant parents in Texas, yet it never addresses the disputed and controversial numbers in its 2005 report.²⁸

FAIR counts the supposed number of unauthorized immigrant children—1.3 million—in addition to the 3.4 million children it claims are citizen offspring of unauthorized immigrants as a cost of unauthorized immigration.²⁹ The fiscal resources spent on the children of unauthorized immigrants should not be counted as a cost of unauthorized immigration. FAIR's methodology

was rejected by the Texas Comptroller's Office, because, "The inclusion of these children dramatically increased the costs reported."³⁰

The Texas Comptroller's office recognized the conundrum:

The Controller's office recognizes that there are costs associated with the legally resident children of undocumented immigrants. The Comptroller has chosen not to estimate these costs or revenues due to *uncertainties concerning the estimated population and the question of whether to include the costs and revenues associated only with the first generation or so include subsequent generations, all of which could be seen as costs.* (Italics added)³¹

FAIR's stated reason for including those American-born children as a cost associated with unauthorized immigration is "because the fiscal outlays for them are a direct result of illegal migration that led to their U.S. birth. We do so as well in the assumption that if the parents leave voluntarily or involuntarily they will take these children with them."³² FAIR's reasoning does not match its research. It made no attempt to count the fiscal costs of educating the descendants of other unauthorized immigrants from past generations, which it would do if it were being consistent.³³

The same flawed methodology used by FAIR to analyze the impact of unauthorized immigration on Texas taints the rest of their state by state estimates. They are completely unreliable.

Finally, if this report's reasoning were extended to the entire American population, it would lead to the absurd conclusion that it never pays to have children because of the fiscal costs involved.

Conclusion. FAIR's numerous errors, poor methodology, and failure to address criticisms of its previous work on this issue fatally undermine this study. FAIR's methodology is so flawed that it leads to absurd conclusions. Applying its study's reasoning to studying the children of American citizens, one could conclude that it never pays to have children because the fiscal costs will always outweigh the benefits. That is prima facie absurd.

FAIR ignores the benefits of unauthorized immigration by claiming that other people, namely American citizens who are unemployed or underemployed, would step into the void. That conclusion ignores economic reality. Those who are unemployed or underemployed do not live in a state of economic hibernation cut off from all activity. Even if the jobs and businesses left vacant after deporting all unauthorized immigrants were somehow filled by Americans, the economic activity of those millions of people is still lost.

Every section of FAIR's paper and its ultimate conclusion are in serious error. We need a solution to the crisis of unauthorized immigration, but making elementary errors in attempting to define the real costs of this policy failure will not get us close to a solution that comports with economic reality.

Notes

¹ Jack Martin and Eric A. Ruark, “The Fiscal Burden of Illegal Immigration on United States Taxpayers,” Washington, D.C.: Federation for American Immigration Reform, July 2010, p. 1, http://www.fairus.org/site/DocServer/USCostStudy_2010.pdf?docID=4921

² A Google search of “\$113 billion” and “illegal immigration” revealed 10 news hits on October 5, 2011, including cites in the Palm Beach Post, Miami Herald, and Foxnews.com.

http://www.google.com/search?q=%24113+billion+illegal+immigration&ie=utf-8&oe=utf-8&aq=t&rls=org.mozilla:en-US:official&client=firefox-a#ds=n&pq=%24113+billion+illegal+immigration&hl=en&cp=18&gs_id=4j&xhr=t&q=%22%24113+billion%22+AND+%22illegal+immigration%22&qe=IiQxMTMgYmlsbGlyb2F5EiCJpbGxIZ2FsIGltbWlncmF0aW9uIlg&qe sig=XuTYbEL7neyo6JUtzoZasw&pkc=AFgZ2tm4e0Ud3tk7ic23tKgZa_LXd3ORPdEmeOkBJWxsb39cGsXq7eP4MTukLUpg25mliRnLvo919s-3kRnXe0sCrWWWBrtwCw&pf=p&sclient=psy-ab&client=firefox-a&rls=org.mozilla:en-US%3Aofficial&tbm=nws&source=hp&pbx=1&oq=%22%24113+billion%22+AND+%22illegal+immigration%22&aq=f&aqi=&aql=&gs_sm=&gs_upl=&bav=on.2,or.r_gc.r_pw.r_cp.,cf.osb&fp=ff9acb8f7e82c5e2&biw=1600&bih=796&bs=1

³ *Ibid.*

⁴ Brian Duncan, V. Joseph Hotz, and Stephen J. Trejo, “Hispanics in the U.S. Labor Market,” *Hispanics and the Future of America*, Marta Tienda and Faith Mitchell, Washington, D.C.: National Academies Press, 2006, pp. 229-230.

⁵ U.S. Census Bureau, *American Community Survey*, S2001.

⁶ Ruth Ellen Wasem, “Unauthorized Aliens Residing in the United States: Estimates Since 1986,” Washington, D.C.: Congressional Research Service, September 22, 2011, p. 5. <http://fpc.state.gov/documents/organization/174245.pdf>

⁷ Martin and Ruark, p. 5.

⁸ *The New Americans: Economic, Demographic, and Fiscal Effects of Immigration*, Washington, D.C.: National Research Council, 1997, p. 306.

⁹ *Ibid.*, pp. 358-360.

¹⁰ Martin and Ruark, p. 1.

¹¹ Paula N. Singer and Linda Dodd-Major, “Identification Numbers and U.S. Government Compliance Initiatives,” *Tax Notes*, vol. 104 (September 20, 2004), pp. 1429-1433.

¹² Joel Feinleib and David Warner, *The Impact of Immigration on Social Security and the National Economy*, Social Security Advisory Boards, Issue Brief No. 1, December 2005.

¹³ Congressional Budget Office, “The Impact of Unauthorized Immigrants on the Budgets of State and Local Governments,” December 2007, p. 7.

¹⁴ *Ibid.*

¹⁵ Martin and Ruark, p. 77.

¹⁶ Gianmarco I.P. Ottaviano and Giovanni Peri, *Rethinking the Gains from Immigration: Theory and Evidence from the U.S.*, (October 2005), NBER working paper, National Bureau of Economic Research.

¹⁷ Carole Keeton Strayhorn, “Undocumented Immigrants in Texas: A Financial Analysis of the Impact to the States Budget and Economy,” Austin, TX: Texas Office of the Comptroller, December 2006, p. 20.

¹⁸ Peter B. Dixon and Maureen T. Rimmer, “U.S. Imports of Low-Skilled Labor: Restrict or Liberalize” Centre for Policy Studies, Monash University, January 30, 2010. The USAGE economic model was created by the Centre for Policy Studies at Monash University in Australia, in collaboration with the U.S. International Trade Commission. It is used by several governments around the world, including the U.S. government, to model the economic impact of trade, immigration, and other policy shocks. The model combines data on the number of lower skilled immigrant laborers, their skill mix, their wage rates, the taxes they pay, and public expenditures made on their behalf. It then incorporates projections about demand for and, supply of, lower skilled immigrant labor and future growth prospects for the U.S. economy into a detailed, dynamic economy-wide model for the U.S. USAGE runs two simulations. The first simulation is a business as usual run and the second simulation is a policy run, which measures the economic effect of a particular policy change. The outcomes of the two simulations are then compared to measure the economic outcome of the policy.

¹⁹ Peter B. Dixon and Maureen T. Rimmer, “Restriction of Legalization? Measuring the Economic Benefits of Immigration Reform,” Washington, D.C.: Cato Institute, August 13, 2009.

<http://www.cato.org/pubs/tpa/tpa-040.pdf>.

²⁰ Ibid.

²¹ Martin and Ruark, p. 47.

²² Michael Hofer, Nancy Rytina, and Bryan C. Baker, "Estimates of the Unauthorized Immigrant Population Residing in the United States: January 2009," Washington, D.C.: Office of Immigration Statistics, January 2009, p.

1. http://www.dhs.gov/xlibrary/assets/statistics/publications/ois_ill_pe_2009.pdf

²³ Jeffrey S. Passel and D'Vera Cohn, "Unauthorized Immigrant Population: National and State Trends, 2010," Washington, D.C.: Pew Hispanic Center, February 1, 2011, p. 1, <http://pewhispanic.org/files/reports/133.pdf>.

²⁴ Steven Camarota and Karen Jensenius, "A Shifting Tide: Recent Trends in the Illegal Immigrant Population," Washington, D.C.: Center for Immigration Studies, July 2009, p. 1,

<http://www.cis.org/articles/2009/shiftingtide.pdf>.

²⁵ Federation for American Immigration Reform, "The Costs of Illegal Immigration to Texans," April 2005, pp. 7-8, http://www.fairus.org/site/DocServer/texas_costs.pdf?docID=301.

²⁶ Keeton Strayhorn, p. 4.

²⁷ Ibid.

²⁸ Martin and Ruark, p. 51.

²⁹ Ibid., p. 5.

³⁰ Keeton Strayhorn, p. 2.

³¹ Keeton Strayhorn, p. 2.

³² Martin and Ruark, , p. 5.

³³ This criticism is not an endorsement of government schooling, transfer payments, or any other aspect of the welfare state.