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Julian L. Simon
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7. Taxes Paid by Immigrants and the Net Balance

The amount of taxes a group pays depends largely upon the group's income. Hence we must discuss the absolute and relative trends in immigrant incomes.

Again, we have the problem that the only comprehensive data available on family income are two decades old. Therefore, results of the data discussed in the first section must be modified by the more recent partial data for individual male earners shown in the next section.

Data from the 1976 Survey of Income and Education

Data from the Census Bureau's 1976 SIE on family earnings and taxes paid by the various cohorts of immigrants are shown in Table 7.1. These earnings data enable one to estimate the taxes paid by immigrant families.

Within three to five years after entry, immigrant family earnings reached and surpassed earnings of the average native family (as of 1976); this catch-up is due largely to the youthful non-retired age composition of immigrant families. The average native family paid $3,008 in taxes in 1975. In comparison, immigrant families in the United States 10 years paid $3,369, those here 11-15 years paid $3,564, and those here 16-25 years paid $3,592. All the cohorts' payments substantially surpassed natives' payments.

Akbari found the same pattern in Canada for 1980. Immigrants who arrived in Canada between 1946 and 1976 contributed substantially more in taxes than did natives (1989, Table 4). And though the results vary somewhat, Akbari's data for 1990 also show much the same pattern (1994, Table 5).

These data, ranging over 15 years and two countries, corroborate each other that immigrant families tend to pay more taxes than do natives in most relevant cohorts.

It is family data such as these that are relevant for policy discussions, because the family is the relevant economic unit. Data to be considered later in this section (for completeness only) generally pertain to individuals.

Have There Been Changes in the Pattern of Taxes Paid?

As discussed earlier in Chapter 3, the earnings of successive cohorts of immigrant men since the 1960s have fallen relative to native men, both at the time of arrival and also later on. (See Table 3.3.) The gap between the mean earnings of (a) all new immigrant men and (b) adult natives 25-64 was wider in the 1980s than in the previous decade—27.9 percent versus 21.3 percent (averaging age-education adjusted cohorts, Borjas 1994, 1678). The gap between the mean earnings of immigrant men who entered in the 1970s and adult natives 25-64 also was wider in the 1980s than the comparable gap in the previous decade. This continues a downward relative trend from men who entered in the 1960s, a gap of about 10.5 percent.

As noted in Chapter 3, these relative shifts in earnings do not imply that the newer immigrants have a negative economic effect. But this trend does imply that the size of tax contributions by recent cohorts of immigrants relative to those of natives has diminished over the three decades. Or to put it differently, this trend (if it exists) brings persons who contribute a lower amount of "excess" taxes to the public fisc than would persons with higher earnings. From an analytic point of view, differences among cohorts imply that a present-value analysis using the synthetic method I applied to the 1975 data requires additional adjustments and qualifications.
### Table 7.1

**Family Earnings and Employment Data for Immigrants and Natives, United States, 1975**

<table>
<thead>
<tr>
<th>Immigrant Cohort by Year of Entry</th>
<th>Head's Wages and Salaries ($1)</th>
<th>SPOH'S Wages and Salaries (whether there is or is not a spouse) ($2)</th>
<th>Self-Employment Income ($3)</th>
<th>Total Wages and Salaries ($4)</th>
<th>Total Family Earnings ($5)</th>
<th>Number of Persons in Labor Force ($6)</th>
<th>Number of Earners ($7)</th>
<th>Number of Persons Employed ($8)</th>
<th>Number of Persons Unemployed ($9)</th>
<th>Estimated Tax Paid on Wages 0.29 \times ($4) ($10)</th>
<th>Estimated Tax Paid on Earnings 0.29 \times ($5) ($11)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1974</td>
<td>7,162</td>
<td>1,182</td>
<td>80</td>
<td>8,890</td>
<td>9,192</td>
<td>1.26</td>
<td>1.35</td>
<td>1.09</td>
<td>0.131</td>
<td>2,587</td>
<td>2,666</td>
</tr>
<tr>
<td>1973</td>
<td>8,351</td>
<td>1,774</td>
<td>497</td>
<td>10,880</td>
<td>11,387</td>
<td>1.45</td>
<td>1.45</td>
<td>1.35</td>
<td>0.071</td>
<td>3,166</td>
<td>3,302</td>
</tr>
<tr>
<td>1972</td>
<td>7,738</td>
<td>2,048</td>
<td>133</td>
<td>10,458</td>
<td>10,610</td>
<td>1.36</td>
<td>1.39</td>
<td>1.20</td>
<td>0.165</td>
<td>3,043</td>
<td>3,077</td>
</tr>
<tr>
<td>1971</td>
<td>7,603</td>
<td>1,574</td>
<td>1,409</td>
<td>9,416</td>
<td>10,826</td>
<td>1.33</td>
<td>1.28</td>
<td>1.17</td>
<td>0.115</td>
<td>2,740</td>
<td>3,140</td>
</tr>
<tr>
<td>1970</td>
<td>7,294</td>
<td>1,717</td>
<td>610</td>
<td>9,772</td>
<td>10,383</td>
<td>1.51</td>
<td>1.51</td>
<td>1.29</td>
<td>0.168</td>
<td>2,848</td>
<td>3,011</td>
</tr>
<tr>
<td>1965–9</td>
<td>8,313</td>
<td>2,070</td>
<td>635</td>
<td>11,543</td>
<td>12,247</td>
<td>1.49</td>
<td>1.54</td>
<td>1.36</td>
<td>0.130</td>
<td>3,359</td>
<td>3,552</td>
</tr>
<tr>
<td>1960–4</td>
<td>9,156</td>
<td>2,223</td>
<td>1,450</td>
<td>12,248</td>
<td>14,014</td>
<td>1.43</td>
<td>1.50</td>
<td>1.31</td>
<td>0.112</td>
<td>3,564</td>
<td>4,064</td>
</tr>
<tr>
<td>1950–9</td>
<td>9,592</td>
<td>1,874</td>
<td>1,090</td>
<td>12,343</td>
<td>13,542</td>
<td>1.47</td>
<td>1.55</td>
<td>1.34</td>
<td>0.117</td>
<td>3,592</td>
<td>3,927</td>
</tr>
<tr>
<td>Natives</td>
<td>7,503</td>
<td>1,614</td>
<td>722</td>
<td>10,164</td>
<td>11,037</td>
<td>1.26</td>
<td>1.37</td>
<td>1.18</td>
<td>0.090</td>
<td>3,008</td>
<td>3,201</td>
</tr>
<tr>
<td>1976</td>
<td>3,873</td>
<td>824</td>
<td>732</td>
<td>4,702</td>
<td>—</td>
<td>1.20</td>
<td>0.911</td>
<td>0.839</td>
<td>0.065</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>1975</td>
<td>5,520</td>
<td>659</td>
<td>149</td>
<td>6,531</td>
<td>—</td>
<td>1.12</td>
<td>1.30</td>
<td>1.14</td>
<td>0.094</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>1920–49</td>
<td>4,689</td>
<td>1,029</td>
<td>871</td>
<td>6,808</td>
<td>7,740</td>
<td>0.806</td>
<td>0.924</td>
<td>0.744</td>
<td>0.056</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Before 1920</td>
<td>388</td>
<td>62</td>
<td>167</td>
<td>1,771</td>
<td>2,184</td>
<td>0.232</td>
<td>0.281</td>
<td>0.199</td>
<td>0.017</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

**Source:** Simon, 1989, pp. 118–19.

Notes: Means weighted by sample probabilities, standard deviations in parentheses. The data for the 1975 and 1976 and pre-1959 cohorts, though they are not relevant, are included because some have expressed interest in them.

- Annual wages and salaries include wages and salaries from other members of the household besides head and spouse, and hence column 4 should not equal the sum of columns 1–3.
- Total family earnings may vary because each household's contributions may be different, resulting in the discrepancies noted in the estimated tax paid on earnings columns.
- Estimated tax paid on wages is based on the assumption that the family earnings are reported in $5,000, and are entered directly, but the other categories are reported in $10,000.
- The discrepancies in columns 10 and 11 should add to columns 8 and 9. The discrepancies probably arise from the different perceptions of the different questions.
The Net Balance of Costs and Benefits

The most important question from the point of view of economic policy is not directly about welfare, but rather about the overall effect of immigrants on the standard of living of natives by way of the public coffers, taking into account their effect through taxes as well as the welfare system. This sort of analysis—discussed at the start of this chapter—is appropriate with respect to the key policy decision about whether more or fewer immigrants should be admitted.

Flows from the Public Coffers

By summing the categories for the 1975 expenditures in the Census Bureau SIE, we find that the average immigrant family received $1,404 in welfare services in years 1–5 in the United States, $1,941 in years 6–10, $2,247 in years 11–15, and $2,279 in years 16–25. Natives averaged $2,279, considerably more than the immigrants get during their early years in the United States. The early years are more relevant than are later years because rational policy decisions weigh the distant future less heavily than the near future, for exactly the same reasons that a dollar in hand is worth more to us now than a dollar that will be in hand 10 years from now.

As to Social Security when immigrants grow older: The children of retired immigrants support them with their taxes, just as the children of natives do for their parents, so the retired immigrants are no special burden upon natives. This matter is discussed at length in Simon (1989, Chapter 5).

Flows to the Public Coffers

As shown above, the average native family paid $3,008 in taxes in 1975. In comparison, immigrant families here 10 years paid $3,369, those here 11–15 years paid $3,564, and those here 16–25 years paid $3,592—in all those cases, substantially surpassing natives' payments.

Net Effect on the Public Coffers

Having in hand both the amounts of taxes paid by immigrants and the amounts of welfare services they use, one may then compute the net balance, positive or negative, for immigrants as a group. Additionally, one can then compare their impact on the public coffers with that of natives. I will now present these calculations for the United States as of 1975, based on the SIE.

Assuming that 20 percent of taxes finance activities that are little affected by population size (for example, maintaining the armed forces and the Statue of Liberty), the consolidated data on services used and taxes paid show substantial differences to the benefit of natives: an average of $1,354 yearly for the first 5 years the immigrant families are in the United States, and $1,329, $1,525, and $1,383 for years 6–10, 11–15, and 16–25, respectively. These are the amounts that natives are enriched each year through the public coffers by each additional immigrant family on average. Evaluating the future stream of differences as one would evaluate a dam or a proposed harbor, the present value of an immigrant family discounted at 3 percent (inflation adjusted) was $20,000 in 1975 dollars, almost two years' average earnings for a native family; at 6 percent the present value was $15,000; and at 9 percent it was $12,000. (All these data are based upon the total stock of immigrants in the United States, without distinction as to whether they are legal or illegal. Illegals are likely to be underrepresented in the survey because of their reluctance to deal with public officials, but the Census Bureau has found that a large proportion of them do respond to such surveys. The underrepresentation is not likely to have a significant effect upon the overall calculations above, and, if anything, it is likely to cause an understatement in the benefit to natives.)

There are other costs for some groups of immigrants, too. For example, during the period prior to the SIE, the federal government paid $1,000 per person to resettlement organizations to cover overhead and start-up money for Vietnamese, Soviet Jewish, and other refugees. This expense and such costs as special refugee schooling should be deducted from the above present-value calculation for the average immigrant family. But it is unlikely that these deductions would make the calculation negative.

Qualification

As discussed above, the data for the 1980s for relative earnings (and hence taxes) for individual native and immigrant men are sufficiently different from the data for earlier cohorts that it may be prudent not to rely on a synthetic-lifetime study which includes later cohorts along with the earlier cohorts. But taken together, these data do not indicate that the earlier findings are no longer relevant.
Furthermore, the 1975 data for the United States are corroborated by two similar studies for Canada by Ather Akbari (1989; 1995), one using 1981 data and the other using 1991 data, from two different sources (census data for 1981 and Survey of Consumer Finances for 1991). The results of Akbari's study of 1981 data are entirely consistent with my study for the United States using 1970s data, and his study of 1991 data shows no major differences from the study of the 1981 data or my study of U.S. 1975 data.

Net Balance for Undocumented Aliens

In the previous chapter, the expenditures on illegal aliens were estimated to be about $1,390 per capita, which is considerably less than for legal immigrants and about 38 percent of the level for natives. This means that, if, on average, illegal immigrants pay at least 38 percent as much taxes as natives, they will be paying their own way.

Clark et al. (Table 6.2) estimate that the 5.8 percent of the undocumented population in the seven states pays 1.3 percent of the total of sales, income, and property taxes, or 1.3/2.8 = 46 percent as much taxes as natives. If— and there seems little reason to estimate a higher or lower figure—the same proportion holds for total taxes, then taxes paid by illegals more than offset the costs of the services that they use. That is, the 46 percent of the average natives' inflow that immigrants pay in taxes is a greater amount than the 38 percent of the average natives' outlays on the illegals. And assuming that total U.S. inflows balance total outlays, and that other public outlays on account of illegals are not greater than for natives (indeed, they surely are much less), illegals are more than paying their own way and are contributing to the public coffers. If one were to make any reasonable accounting for the low marginal expenditures on public goods such as defense and foreign activities in connection with illegals, the accounting would look even more favorable for illegals.