



# The economic and fiscal consequences of immigration: highlights from the National Academies report

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## Abstract

The National Academies report *The Economic and Fiscal Consequences of Immigration* (Blau and Mackie 2017) summarizes recent trends in immigration numbers and characteristics, summarizes the theory of the impact of immigration on the economy, reaches consensus on central empirical issues, and performs original research on the impact of immigration on federal, state and local budgets. Immigrants are increasingly numerous and educated; increase GDP and GDP growth; have little effect on average native wages and employment; but create both winners and losers among natives. The long-term fiscal impact is positive at the federal level, though negative at the state level due to the costs of educating immigrant children.

**Keywords** Immigration · Labor · Growth

In 2017, the National Academies of Sciences, Engineering and Medicine (NAS) released a peer-reviewed report entitled *The Economic and Fiscal Consequences of Immigration* (Blau and Mackie 2017), a consensus study authored by a panel of social science experts on immigration.<sup>1</sup> The objective of the report is to provide guidance to non-experts on a controversial topic of policy importance whose associated scientific literature is not easy to interpret, and, in so doing, to update the NAS's 1997 comprehensive analysis of the impact of immigration on the U.S. economy, *The New Americans: Economic, Demographic, and Fiscal Effects of Immigration* (Smith and Edmonston 1997). The report is a mixture of original research and careful weighing and synthesis of the results of the existing scientific literature, but does not make policy recommendations. In this paper, we provide highlights of the 2017 report, including how immigration patterns have changed recently; how immigration

affects the labor market; how immigration affects the economy through mechanisms other than the labor market; and how immigration affects public revenue and spending.

## 1 Trends in immigrant numbers and characteristics

The report documents current trends in immigration, and characteristics and outcomes of immigrants relative to natives. While in 1995, only 9% of the U.S. population was an immigrant (foreign-born), by 2014 this figure had risen to 13% (and by 2017 to 13.7%, according to the Migration Policy Institute (MPI)<sup>2</sup>). The increasing immigration rate over some decades has led to nearly one in four American residents being either an immigrant or child of an immigrant in 2014. The unauthorized population also grew over the period, from an estimated 5.7 million in 1995 to 11.1 million by 2014, but the growth was uneven: the unauthorized numbers shrank between 2007 and 2009, and have since leveled off (MPI's estimate for 2016 is 11.3 million).

Because immigrants are younger on average than natives, and more likely than natives to be of working age, immigration has slowed the aging of the American population and

<sup>1</sup> One of the authors (Blau) chaired the panel while the other (Hunt) was a panel member; see the [Appendix](#) for a full list of participants.

<sup>2</sup> <https://www.migrationpolicy.org/article/frequently-requested-statistics-immigrants-and-immigration-united-states>, accessed 26 April 2019.

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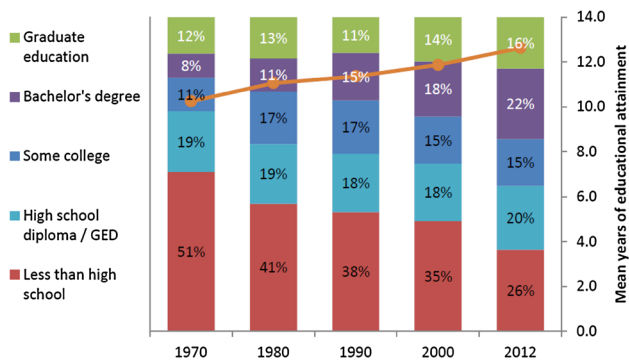
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**Fig. 1** Education attainment of recent immigrants (those who entered in the 5 years prior), 1979–2012. *Source* Analysis of 1970, 1980, 1990 and 2000 Decennial Census data, and 2010–2012 ACS data

immigrants have increased faster as a share of the labor force than of the population: up from 11 to 16% in the 20 years preceding the report (and reaching 17.1% by 2017 according to MPI). Immigrants and their children account for the vast majority of current and future labor force growth.

Over time, the immigrant population has grown more educated, albeit at a slower rate than the native-born population. Figure 1 shows that the average education of recent immigrants rose from 10.2 years in 1970 to 12.6 years in 2012 (right axis), as the share of immigrants not having completed high school declined from 51 to 26% and the share with a Bachelor's degrees and above increased from 20 to 36%. Another important change is that, since the 1990s, the immigrant population has shifted away from traditional gateway cities, in California and New York, in particular, and dispersed to states and communities with historically few immigrants. Nevertheless, over half of the foreign-born population is concentrated in just ten metropolitan areas.

## 2 Impact of immigrants on employment and wages

After explaining the insights of theory into the impact of immigrants on the receiving labor market, the report turns to the very large U.S. empirical literature on this topic. The contribution of the report is to reach a consensus, particularly on the impact on native wages and employment. The studies of the impact on employment are not difficult to summarize, and the panel found “The literature on employment impacts finds little evidence that immigration significantly affects the overall employment levels of native-born workers” (p. 4). The picture for wages is much more complex, and we quote more extensively from the report summary (p. 4):

When measured over a period of 10 years or more, the impact of immigration on the wages of natives

overall is very small. However, estimates for subgroups span a comparatively wider range, indicating a revised and somewhat more detailed understanding of the wage impact of immigration since the 1990s. To the extent that negative wage effects are found, prior immigrants—who are often the closest substitutes for new immigrants—are most likely to experience them, followed by native-born high-school dropouts, who share job qualifications similar to the large share of low-skilled workers among immigrants to the United States. Empirical findings about inflows of skilled immigrants [...] suggest the possibility of positive wage effects for some subgroups of workers, as well as at the aggregate level.

## 3 Summary of other economic effects of immigration

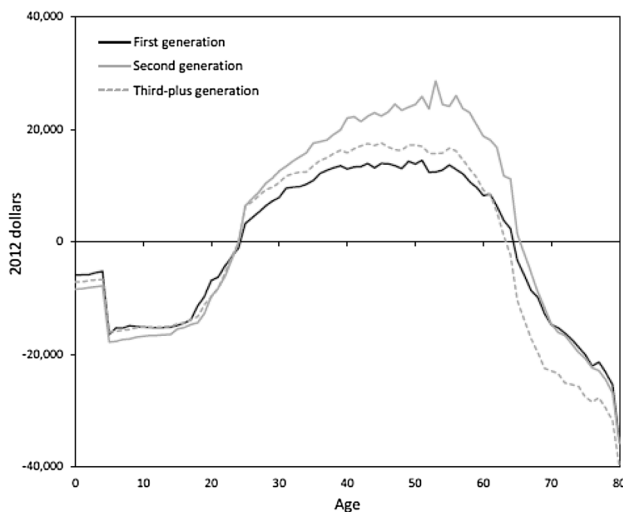
The report also considers links between immigration and economic outcomes beyond the wages and employment of natives. Immigrants raise gross domestic product (GDP) by increasing the labor force, and by improving economic efficiency through moving to where opportunities are best. Because high-skill immigrants have been shown to increase patents, the best available marker for innovation, they are expected to increase growth in GDP per capita. Immigrants also contribute to entrepreneurship. For their part, low-skill immigrants reduce the prices of services, such as child-care, benefiting both immigrant and native consumers.

## 4 Fiscal impact of immigration

The principal original research conducted by the panel concerns an issue closely linked to immigration in the mind of the public: do immigrants pay more or less in taxes than they receive in benefits from the government? The panel's research constitutes the most thorough analysis of the fiscal impact ever performed for the United States.

The first and simpler approach used is to calculate the fiscal impact for a given year (2013). The second and more complex approach is to forecast the fiscal impact over a 75-year horizon. Clearly, the latter approach requires many assumptions, but even the former approach relies heavily on two decisions. The first is whether to count as benefits to immigrants their share of government spending on public goods (the average cost approach), of which national defense is the most important, or whether to assume that national defense costs no more with immigrants than without them and attribute no government spending to immigrants on this account (the marginal cost approach). The second is whether to consider as a benefit to immigrants any benefits received





**Fig. 2** Net fiscal impact per capita in 2012, including all levels of government, by age and immigrant generation. *Source* Data are from the 2011–2013 March Current Population Surveys

by their native-born dependent children, of which the most important is public schooling. The panel makes both average and marginal cost calculations, and does attribute the benefits of expenditures on immigrant children to their immigrant parents.

Figure 2 shows the net fiscal impact of immigrants (“first generation”), their native-born children (“second generation”) and all others (“third-plus generation), by age. Age is clearly the most important driver, with all three groups receiving net benefits when young and attending (mostly public) school, making net contributions when of working age, and then again receiving net benefits (especially social security and Medicare) after retirement. The main difference among the three groups is that, among the working aged, the second generation contributes the most, and among the retired, the third-plus generation receives the most. The first generation contributes least in the working age range, reflecting their lower average education.

When the profiles in Fig. 2 are combined with the shares of the three groups at each age and dependent children are included with their parents, it emerges that all three groups are net beneficiaries—receive more in government expenditures than they pay in taxes. This is due to our aggregate budget deficit. However, under the average cost approach, immigrants (the first generation) have a lower fiscal contribution than natives (the second and third-plus generations), especially at the state level. Although immigrants are more concentrated in the prime working age range, they are less well educated and have more children. The report notes, however, that the education of the children of immigrants, a main contributor to immigrants’ lower fiscal contribution, might be viewed as an investment rather than a cost.

Moreover, the exact fiscal contributions of the immigrants, who represent 17.6% of the population, depend greatly on the approach: immigrants are responsible for 22.4% of the deficit under the average cost approach, but only 4% under the marginal cost approach.

The more complex analysis over the 75-year horizon projects the contributions of the various groups as they move through the life cycle. The main conclusions to be drawn from the scenarios under various assumptions are that immigrants make a net positive contribution at the federal level, but a negative contribution at the state and local level due to the cost of public schooling and the only weakly progressive state tax systems. The federal government will later benefit from state educational expenditures in the form of the tax payments of adult immigrants, raising questions of equity in the distribution of costs between the federal government and the states.

## Appendix: Panel members, consultants and staff for the NRC report

### Panel members

Francine D. Blau (*Chair*), Department of Economics, Cornell University

Michael Ben-Gad, Department of Economics, City University London

George J. Borjas, Malcolm Wiener Center for Social Policy, John F. Kennedy School of Government, Harvard University

Christian Dustmann, Department of Economics, University College London

Barry Edmonston, Department of Sociology, University of Victoria, BC

Isaac Ehrlich, Department of Economics, University at Buffalo, State University of New York

Charles Hirschman, Department of Sociology, University of Washington

Jennifer Hunt, Department of Economics, Rutgers University

Dowell Myers, Sol Price School of Public Policy, University of Southern California

Pia M. Orrenius, Research Department, Federal Reserve Bank of Dallas, TX

Jeffrey S. Passel, Senior Demographer, Pew Research Center, Washington, DC

Kim Rueben, Tax Policy Center, Urban Institute, Washington, DC

Marta Tienda, Woodrow Wilson School, Princeton University

Yu Xie, Princeton Institute of International and Regional Studies, Princeton University



## Consultants to the panel

Gretchen Donehower, University of California at Berkeley  
 Ryan Edwards, Queens College, City University of New York

Sarah Gault, Urban Institute  
 Julia Gelatt, Urban Institute

## Staff

Christopher Mackie, Study Director  
 Constance F. Citro, CNSTAT Director  
 Esha Sinha, Associate Program Officer  
 Anthony S. Mann, Program Coordinator

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**Francine D. Blau** is Frances Perkins Professor of Industrial and Labor Relations and Professor of Economics at Cornell University, a Research Associate of the NBER (National Bureau of Economic Research), and a Research Fellow of IZA (Institute for the Study of Labor); CESifo (Institute for Economic Research); and DIW (German Institute for Economic Research). She received her Ph.D. in Economics from Harvard University and her BS from the School of Industrial and Labor Relations at Cornell University. Before returning to Cornell in 1994, she was on the faculty at the University of Illinois, Urbana-Champaign. Professor Blau has served as President of the Society of Labor Economists (SOLE) and the Labor and Employment Relations Association

(LERA), Vice President of the American Economic Association (AEA), President of the Midwest Economics Association (MEA), and Chair of the AEA Committee on the Status of Women in the Economics Profession (CSWEP). She was elected a Distinguished Fellow of the American Economic Association in 2018. In 2010, she received the IZA Prize for outstanding achievement in labor economics (the first woman to receive this prestigious award), and was awarded the 2017 Jacob Mincer Award by the Society of Labor Economists in recognition of lifetime of contributions to the field of labor economics. She is also the 2001 recipient of the Carolyn Shaw Bell Award from CSWEP for furthering the status of women in the economics profession. In 2017, she was awarded the Groat Alumni Award for outstanding professional accomplishments from Cornell's ILR School. She is a fellow of the Society of Labor Economists, the American Academy of Political and Social Science, and the Labor and Employment Relations Association. She is an Associate Editor of *Labour Economics* and was formerly an editor of the *Journal of Labor Economics* and an Associate Editor of the *Journal of Economic Perspectives*. She serves or has served on numerous Editorial Boards, including the *American Economic Review*, the *Journal of Labor Economics*, the *Journal of Economic Perspectives*, the *ILR Review*, the *Journal of Labor Research*, and *The Annals of the American Academy of Political and Social Science*. Professor Blau has written extensively on gender issues, wage inequality, immigration, and international comparisons of labor market outcomes. She is the author of *Equal Pay in the Office and Gender, Inequality, and Wages*, and, with Lawrence Kahn, of *At Home and Abroad: U.S. Labor Market Performance in International Perspective* (recipient of the Richard A. Lester Prize for the outstanding book in labor economics and industrial relations for 2002). She is co-editor of *The Economic and Fiscal Consequences of Immigration*; *The Declining Significance of Gender?*; and *Gender and Family Issues in the Workplace*. She is also coauthor, with Anne Winkler, of *The Economics of Women, Men, and Work*, currently in its 8th edition.

**Jennifer Hunt** is James Cullen Professor of Economics at Rutgers University. She joined Rutgers in 2011 after previous positions at McGill University (2004–2011), the University of Montreal (2001–2004) and Yale (1992–2001). From 2013 to 2015 she was first Chief Economist of the U.S. Department of Labor, then Deputy Assistant Secretary for Microeconomic Analysis at the U.S. Department of the Treasury. She received her Ph.D. in Economics from Harvard in 1992 and her Bachelor's degree in Electrical Engineering from the Massachusetts Institute of Technology in 1987. She is a Research Associate at the National Bureau of Economic Research in Cambridge, Massachusetts, a Research Fellow at the Centre for Economic Policy Research in London and the Institute for the Study of Labor in Bonn.

