

Immigration, Social Security and The Labor Market

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Overview:

Illegal Aliens and Retirement Programs:

- Illegals are mostly of working age, and cannot collect Social Security or Medicare, thus they are currently a net positive for Social Security and Medicare. Illegals pay about \$7 billion into the two programs, or an amount equal to about 1.5% of the programs expenditures. (The \$7 billion figure is my estimated; it is sometimes erroneously attributed to others.)
- However, illegal aliens are a net fiscal drain on the non-Social Security (SS) and Medicare parts of the federal budget, so all of the net benefit they create for SS and Medicare is offset by the drain they create in the rest of the Federal Budget. The net fiscal drain (all taxes paid minus all services used) is over \$10 billion.
- Even the relatively tiny positive effect they currently have on (SS) and Medicare is partly due their inability to collect benefits. If legalized, they would represent a long term drain because illegals overwhelming have little education, and thus have low average incomes. Because Social Security pays more generous benefits to low-income workers relative to what they pay in, legalization would add millions of low-income workers to the system, further straining it.

Legal Immigrants and Retirement Programs:

- Legal immigration has only a tiny impact on the solvency of the Social Security System. According to the Social Security Administration (SSA), if legal immigration was reduced 41 percent, from 800,000 to 470,000, it would increase the program's projected deficit by just 2.5 percent of the funding deficit and 3.6 percent of the deficit, if one assumes the trust fund is a real asset.
- It is not clear that even this tiny benefit exists, because SSA assumes legal immigrants have earnings and resulting tax payments as high as natives from the moment they arrive, which is contrary to a large body of research.
- SAA estimates also ignore the fact that legal immigrants are about twice as likely to receive the Earned Income Tax Credit as natives, which according to the IRS was specifically created to "offset the burden of Social Security taxes" on low-income workers.

Immigration and the Aging of American Society:

- The main reason immigration cannot save retirement programs is that it has a small effect on the aging of American society.
- In 2000 the average age of an immigrant was 39, which is actually about four years older than the average age of a native-born American. Immigrants age like everyone else.
- The 2000 Census shows that if all post-1980 immigrants and their US-born children are

not counted, the working-age share of the population (ages 15 to 64) would be 65.9 percent, almost exactly the same as the 66.2 percent when they are all counted.

- Looking to the future, Census Bureau projections indicate that if net immigration averaged 100,000 to 200,000 annually, the working age share would be 58.7 percent in 2060, while with net immigration of roughly 900,000 to one million, it would be 59.5 percent.

Immigration and Less-Educated Workers:

- There is no evidence of a labor shortage, especially at the bottom end of the labor market where immigrants, especially illegals, are concentrated. If there was, wages, benefits, and employment should all be increasing fast, the opposite of what has been happening.
- Employment has declined significantly for the less-educated. The share of adult natives (18 to 64) without a high school diploma in the labor force fell from 59 to 56 percent between 2000 and 2006, and fell from 78 to 75 for those with only a high school diploma. This means they are neither working nor looking for work.
- There are 23 million adult natives with a high school degree or less unemployed or not in the labor force. There are 10 million native-born teenagers (15 to 17) unemployed or not in the labor force. There are 4 million college students unemployed or not in the labor force. In comparison, there are an estimated 7 million illegal aliens holding jobs.
- Wages and benefits have generally stagnated or declined for the less-educated. Hourly wages for men with less than a high school education grew just 1 percent between 2000 and 2005. Hourly wages for men with only a high school degree declined by .5 percent between 2000 and 2005. The share of employers providing health insurance has also declined.

Introduction

Supporters of high levels of immigration often assert that we need immigration to save Social Security. They argue that without large-scale immigration, legal and illegal, there will not be enough people of working age to support the economy or pay for government.

Actually, a good deal of research has been done on these questions by actual demographers, the people who study human populations, and there is widespread agreement that immigration has very little impact on the aging of American society. It is true that immigrants tend to arrive relatively young, and it is also true that they tend to have more children than native-born Americans. But immigrants age just like everyone else; moreover the differences with natives are not large enough to significantly alter the nation's age structure.

The Social Security System

The discussion of Social Security that follows is drawn mainly from an April 2005 report published by the Center for Immigration Studies.¹ Because payments to current retirees come from current workers, adding workers through immigration, advocates argue, will significantly extend the solvency of the program. While there is an inherent plausibility to this line of thinking, it turns out to be mistaken.

Overview of Social Security System. To understand immigration's impact, it first helps to understand the size and scope of Social Security's problem. In the 1980s, Congress increased Social Security taxes in order to create a surplus that could be used, in theory, to pay benefits in the future when there will be a surge in retirees as baby boomers turn 65. The accumulated surplus is called the trust fund. According to the 2004 report of the Social Security trustees, expenditures will exceed revenue in 2018, but continuing tax payments plus money in the trust fund can pay out benefits until 2042. However, Congress has taken out all the money in the fund to cover the costs of other programs — \$1.5 trillion so far, leaving IOUs from the federal government to itself in the form of U.S. Treasury bonds.² This fact is important because if immigrants did create a net benefit for the Social Security system, but a large net drain on the rest of the federal budget, then any money in the Trust Fund would by law have to be used to cover the drain created by immigrants in the rest of the budget. Thus looking at only the Social Security system makes little sense. The real issue is the impact of immigration on the entire budget, not one part of the budget.

¹ The entire report can be found at: www.cis.org/articles/2005/back505.html

² Its worth noting that the government even counts the several hundred billion dollars in interest the government owes itself on the these bonds as part of the Trust Fund.

In dollar terms the system will need some \$ 3.7 trillion dollars over the next 75 years to pay retirees, assuming no benefit cuts. If one does not treat the trust fund as a real asset, then the actual shortfall is \$5.3 trillion. Again, all these figures are from the 2004 Trustee's report. I use the 2004 figures because that was the last time the Social Security Administration provided detailed estimates of the impact of different levels of immigration. The overall numbers do not change much from year to year, so the figures for 2004 are very similar for those from 2006.

How much can immigration solve this problem? The Social Security Administration runs projections assuming different levels of legal immigration. They don't really deal with illegal immigration. But, their estimates do provide insight into immigration generally. For its baseline projections they assume legal immigration of 800,000 a year. According to SSA, if legal immigration was reduced 41 percent from 800,000 to 470,000, it would increase the deficit by \$133 billion over 75 years. A seemingly large number, but this comes to just 0.4 percent of the program's 75-year projected expenditures, 2.5 percent of the funding deficit, and 3.6 percent of the deficit, if one assumes the trust fund is real.

What might this mean for average taxpayers? To make up the difference for cutting legal immigration by 41 percent, taxes would have to be increased by \$21 a year for the average worker making \$33,000 a year, or \$42 if one assumes that workers bear the costs of taxes levied on employers. Reducing immigration from 800,000 to 470,000 a year would be substantial. But doing so would have only a tiny effect on Social Security.

SSA projections also show what would happen if legal immigration was doubled from 800,000 to 1.6 million annually over the next 75 years. This would reduce the deficit by \$346 billion over 75 years. This is equal to only 6.6 percent of the funding shortfall, or 9.4 percent if the trust is treated as real. Putting aside how unlikely an increase in legal immigration of this size is, if doubling legal immigration leaves more than 90 percent of problem in place, then it makes no sense to tout it as a significant part of the long-term solution to the problem.

Low-Income Workers are a Problem for Social Security. In truth, it's not even clear that the small projected benefits from legal immigration actually exist. In its projections the SSA assumes that immigrants will have wages and resulting tax payments as high as the existing population at the same age. The existing population is, of course, overwhelmingly native-born. So, in effect, SSA is assuming newly arrived immigrants will have parity with natives in terms of tax payments from the moment the immigrants arrive. This is contrary not only to common sense but also a very large body of research showing that legal immigrants are significantly poorer than natives on average, resulting in lower tax payments. This matters for a number of reasons, not the least of which is that Social Security is redistributive in nature. For example, a new retiree in 2004 with average earnings receives benefits equal to roughly 40 percent of his working income. In contrast, a worker with half the average income receives 50 percent of his

earnings. By treating them as average from the moment they arrive, SSA is significantly overestimating the positive impact of immigrants both in terms of their immediate impact on the system and their long-term effect. In fairness, SSA is aware of this problem — they simply are not sure how to deal with it in their projections.

The lower income of immigrants also matters because of the Earned Income Tax Credit (EITC), which pays cash to low-income workers. As the IRS states on its web site, the credit was created to “offset the burden of Social Security taxes” on low-income workers. My own research shows that legal immigrants are more than twice as likely as natives to receive the credit. While not directly part of the Social Security system, one cannot ignore the fact that so many legal immigrants, in effect, get all or most of their Social Security taxes refunded through the EITC.

Even if one ignores the EITC, and the significant differences in immigrant and native lifetime earnings, and tax payments, the fact remains that SSA’s own projections show a small impact from legal immigration on the system relative to its size.

Illegal Immigration and The Social Security System

The discussion above makes clear that legal immigration has only a very modest effect on the solvency of the program over the long term. It’s not even clear that the effect is positive, when one considers the redistributive nature of the program, and the fact that immigrants have much lower lifetime earnings than natives, something that SSA does not take into account in its estimates. But, what of illegal aliens?

There are three things to keep in mind when considering illegal aliens and Social Security and Medicare: First, because they are mostly of working age, and because they cannot collect Social Security, they are presently a net positive to the Social Security system. Second, they are a net drain on the non-Social Security parts of the federal budget, so all of the net benefit they create for the Social Security and Medicare is offset by the drain they create in the rest of the Federal Budget. Put a different way, all the money they pay into Social Security and Medicare is immediately taken out in order to cover the drain they cause in the federal budget in areas other than Social Security. Third, even the positive effect they have on the Social Security and Medicare systems is mainly due to the fact that they are illegal aliens and cannot collect benefits. If legalized, they would represent a long term drain on the program.

Current Net Positive Effect. It is often pointed out that illegal aliens pay some \$8 billion in Social Security and Medicaid taxes, which it must be emphasized is my estimate. Although, it is sometimes erroneously attributed to the SSA or the National Academy of Sciences, in fact, the figures are from a 2004 report I authored and published by the Center for

Immigration Studies entitled, *The High Cost of Cheap Labor*.³ In that report I found that illegal aliens households pay almost \$5.2 billion in Social Security tax and nearly \$1.7 billion in Medicaid tax. In total, illegal alien-headed households create paid almost 7 billion into the two programs. They also used about \$1 billion in services for net gain to the two programs of about 6 billion. This net benefit is equal to less than 2 percent of total expenditures on these two programs. Thus any benefit to these programs is very small relative to their size. Moreover, they created a large fiscal drain in the rest of the budget that used up all the benefit they created for Social Security and Medicare.

Even with Social Security Illegals Are a Net Drain. In addition to Social Security and Medicare my study also found that illegal alien households paid \$7.9 billion in other taxes, including income and excise taxes. In total illegal alien households paid nearly \$16 billion in taxes to the federal government. However, they imposed costs on the federal government of \$26.3 billion for a net fiscal drain of over \$10 billion. This means that all the money they paid into Social Security and Medicare was, in effect, immediately taken out in order to cover the drain they created in the rest of the federal budget. Federal law requires that any money in the Social Security trust fund be taken out and used for other expenses if the non-Social Security parts of the budget are in deficient. Thus focusing on retirement programs would seem to make little sense because they are not separate programs. Funds in the Social Security system are available to be used for other programs. Thus, any gains to the Social Security from illegal aliens to is illusionary.

Why Legalizing Creates a Larger Fiscal Drain. If we just focus on the Social Security and Medicare systems we can see that having workers who pay into the system who can never access benefits cannot help but be a fiscal benefit, though the benefit is trivial relative to the size of these programs. Of course, one would have to ignore the net drain on the rest of the budget, which would eat up the benefit to Social Security. But even the tiny benefit for Social Security/Medicare only exists in the long run if illegal aliens remain illegal and are thus unable to receive payments. If legalized, then they would be able access the program. Legalization would be a significant problem for the program in the long run because illegal aliens are overwhelming individuals with little education. Between 50 and 60 percent have not completed high school, and another 20 to 25 have only a high school education. Education is the single best predictor of income and resulting tax payments. As already discussed, Social Security is redistributive in nature, paying relatively more generous benefits to lower income workers than it pays to higher income workers. Legalization would add large numbers of less-educated workers to the system, which will cause the system to go bankrupt sooner.

³The entire report can be found at www.cis.org/articles/2004/fiscal.html.

A 1997 study by the National Academy of Sciences entitled *The New Americans*, estimated that an immigrant with less than a high school education is a lifetime net fiscal drain (taxes paid minus services used) of \$89,000 at all levels of government. If the immigrant has only a high school education the net fiscal drain was estimated at \$31,000. It is also worth noting that my study cited earlier, that estimated the Social Security and other tax payments of illegals, also found that if alien aliens were legalized and began to pay taxes and use services like legal immigrants with the same level of education, the net fiscal costs for the federal government would increase about \$16 billion, to a drain of \$29 billion.

Immigration's Impact on Aging of Society

On the larger question of whether immigrants can solve the problem of too few workers relative to dependents, my own research for the Center for Immigration Studies as well as the work of others shows that immigration has only a small impact on aging.⁴ While it may be surprising to some, in the 2000 Census, which included legal immigrants and most illegals as well, the average age of immigrants was 39 years compared to 35 years for native-born Americans. This reminds us of an obvious fact, often overlooked by immigration enthusiasts: even immigrants age. If we look at only those immigrants who arrived after 1980, their average age is somewhat less, 33 years in 2000. But if I remove all 22 million post-1980 immigrants from the Census, the average age of the population increases by only 4 months. In other words, two decades of the heaviest immigration in American history didn't make us significantly younger.

Another way to look at this question is to examine the share of the population who are of working age, usually defined as 15 to 64. In 2000, two-thirds of the population was of working-age with or without post-1980 immigrants. Looking at the full impact of post-1980 immigrants shows that if they and all their U.S.-born children are not counted, the working-age share in 2000 was still two-thirds. It must be remembered that immigration adds to both the working-age population and the population too young or too old to work.

What About the Future? One way to measure immigration is to examine birth rates. After all, children born today will live here for decades to come. In 2000 women in America had 2.1 children on average, compared to 1.4 for Europe. But if all immigrants are excluded, the U.S. rate would still have been about 2 children. Americans do have significantly more children on average than women in other developed countries, but the reason for this is not the presence of immigrants.

The Census Bureau has actually projected the combined impact of new immigrants and

⁴ The discussion that follows draws from a April 2005 report entitled, *Immigration in an Aging Society* which can be found at: www.cis.org/articles/2005/back505.html

their descendants over the next century. They find that if “net immigration,” the number coming minus the number leaving, averaged 200,000 a year, the working age share would be 59 percent in 2060, almost exactly the same as if net immigration averaged roughly one million. In other words, admitting about 50 million more immigrants has very little effect on the age structure. As the Census Bureau itself states in a 2001 report, immigration is a “highly inefficient means” for increasing the working age share of the population in the long run.

There is no doubt that the aging of the nation’s population will create very real challenges. But the level of immigration is almost entirely irrelevant to this problem. America will simply have to look elsewhere to met these challenges.

No Evidence of a Shortage of Less-Educated Workers

There is no evidence of a labor shortage, especially at the bottom end of the labor market where immigrants are most concentrated. If there was, wages, benefits, and labor force participation should all be increasing fast, the opposite of what has been happening. This is especially true for the kinds of workers illegal aliens compete with. My research and that of the Pew Hispanic Center indicated that 50 to 60 percent of illegals have not completed high school and another 20 to 25 percent have only a high school degree. All of the data collected by the government indicates that there is surplus of labor of this kind in the county.

Employment Has Declined Significantly for the Less-Educated. The share of adult natives (18 to 64) without a high school diploma in the labor force fell from 59 to 56 percent between 2000 and 2006, and fell from 78 to 75 percent for those with only a high school diploma. This means they are neither working nor looking for work. Two recent studies find that immigration is harming the employment of native-born workers. Andrew Sum and his colleagues at Northeastern University have also published several reports showing that all or almost all job growth from 2000 to 2005 went to immigrants. A recent paper by Andrew Sum and his colleagues found that the arrival of new immigrants (legal and illegal) in a state results in a decline in employment among young native-born workers in that state. Their findings indicate that young native-born workers are being displaced in the labor market by the arrival of new immigrants.⁵ In another recent paper published by the National Bureau of Economic Research

⁵“The Impact of New Immigrants on Young Native-Born Workers, 2000-2005,” September 2006, Center for Immigration Studies, by Andrew Sum, Paul Harrington, and Ishwar Khatiwada.

the authors found that a 10-percent, immigrant-induced increase in the supply of a particular skill group reduced the wages of black men by 3.6 percent, lowered the employment rate of black men by 2.4 percentage points, and increased the incarceration rate of black men by almost a full percentage point. Overall the authors concluded that immigration was responsible for 40 percent of the decline in black employment between 1980 and 2000.⁶ Whether immigration is harming less-educated natives or not, the fact remains that the employment data runs completely contrary to the argument that the nation is desperately short of less-educated workers.

There are 23 million adult natives with a high school degree or less unemployed or not in the labor force. There are 10 million native-born teenagers (15 to 17) unemployed or not in the labor force. There are 4 million college students unemployed or not in the labor force. In comparison, there are an estimated 7 million illegal aliens holding jobs.

Wages Show No Evidence of Labor Shortage. When we look at wages and benefits we find the same basic pattern as in employment. Wages and benefits have generally stagnated or declined for the less-educated. According to the Economic Policy Institute, hourly wages for men with less than a high school education grew just 1 percent between 2000 and 2005. Hourly wages for men with only a high school degree declined by .5 percent between 2000 and 2005. The share of employers providing health insurance has also declined. There is good deal of research showing that immigration has contributed to the decline in employment and wages for less-educated natives. But even putting aside this research, the fact remains the wages and benefits data run completely contrary to the idea that there is a significant shortage of less-educated workers in the country.

Other factors have also adversely impacted wages and employment opportunities for less-educated natives, such as technological change and globalization. But labor-saving devices and access to imports make allowing in less-educated workers all the more unnecessary economically and only adds more pressure on the less-educated. Immigration levels are something we can actually change, unlike technological innovation or globalization. All research indicates that less-educated immigrants consume much more in government services than they pay in taxes.

www.cis.org/articles/2006/back806.html

⁶“Immigration and African-American Employment Opportunities: The Response of Wages, Employment, and Incarceration to Labor Supply Shocks,” NBER Working Paper 12518,

Thus, not only does such immigration harm America's poor, it also burdens taxpayers.