



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

EVALUATION REPORT

Economic Impact of Immigrants

MAY 2006

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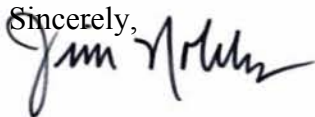
May 2006

Members of the Legislative Audit Commission:

Immigration is a topic of controversy across the nation. Although the federal government has primary responsibility for setting immigration policy and enforcing immigration laws, state and local government officials have considerable interest in the impact immigrants have on their economies and budgets.

In response to your request, the Office of the Legislative Auditor (OLA) examined the economic impact immigrants are having in Minnesota. With limited time and staff to devote to the study, our primary goal was to provide legislators with an accurate summary of existing economic research on the impact of immigrants. Although most of these studies focus on national impacts, we think they provide useful insights when interpreted carefully and in relation to the demographic characteristics of Minnesota's immigrant population.

This report was researched and written by Joel Alter, with assistance from Jan Sandberg and John Yunker.

Sincerely,


James Nobles
Legislative Auditor

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Summary

Studies show that immigration probably has positive economic impacts overall, although certain workers and levels of government might experience adverse impacts.

In the 2000 census, immigrants comprised 5 percent of Minnesota's population and 11 percent of the nation's population.¹ But Minnesota's immigrant population grew more rapidly than the nation's in recent years, leading to questions about immigrants' financial impacts.

This study examined what previous research has shown about (1) the economic impact of immigrants on non-immigrants, and (2) the impact of immigrants on government costs and revenues. The study did not conduct original research on the impact of Minnesota's immigrants.

Immigration May Reduce The Wages Of Some U.S.-Born Workers, But Studies Suggest These Impacts Are Offset By Economic Benefits

Immigration increases the supply of workers in the American economy. Some studies have estimated that this has adverse impacts on the wages of certain U.S.-born workers, particularly those who compete for the same jobs as immigrants.

However, there remains disagreement among reputable researchers about the size of these wage impacts. Some analyses suggest that immigration has reduced wages of non-immigrant men without high school diplomas by more than 7 percent in the short run, while

¹ In this report, the term "immigrants" refers to people residing in the U.S. who were born in another country, including both U.S. citizens and noncitizens.

other analyses have concluded that the wage impacts have been negligible.

Meanwhile, most studies suggest that any adverse wage impacts are offset by the economic benefits of immigration—including more efficient use of labor, lower prices, and increased economic activity. Economists have usually concluded that, in aggregate, non-immigrants are slightly better off economically due to immigration. Individually, however, some workers probably experience net losses due to immigration, while others experience net gains.

Research Indicates That Immigrants Will Typically Benefit Taxpayers Over The Long Term, Although Costs Could Exceed Revenues For State And Local Governments

Immigrants have impacts on government revenues and expenditures. They pay federal, state, and local taxes but also use a variety of publicly-funded services, such as roads, schools, and health care.

In 1997, the National Research Council conducted a comprehensive analysis of immigration's fiscal impacts, and this remains the best study of this topic to date. The council's analysis considered impacts on all levels of government, and it looked at immigrants' fiscal impacts over the long term, not just on an annual basis.

The council concluded that, in aggregate, new immigrants were likely

to have positive impacts on government budgets over the long term—that is, immigrants' tax revenues would typically exceed their public costs. However, the federal government was more likely to benefit from immigration than state and local governments. The council also found that immigrants with high school or college educations were more likely to have positive impacts on government finances, while less-educated immigrants would probably cost governments more over the long term than the taxes they paid.

There is little compelling evidence to suggest that the impacts of Minnesota's immigrants on taxpayers would be less positive than those suggested by such national analyses. Minnesota's immigrants tend to be somewhat younger and better educated than immigrants nationally, suggesting greater potential for earnings and tax revenues over time.

The long-term impact of immigrants on taxpayers depends considerably on the earnings of immigrants' children and grandchildren, and this may depend on their success in Minnesota's schools. Statewide data on students' educational performance do not identify which students were born outside the U.S., but there is room for improvement in the performance of Minnesota students in some racial and ethnic groups (such as Hispanics) that include substantial numbers of immigrants.

The Overall Economic Impacts Of Illegal Immigrants In Minnesota Are Largely Unknown

There has been considerable speculation about the impact of illegal immigrants on Minnesota's economy and its taxpayers. However, firm conclusions cannot be drawn from existing information and research.

First, there have been several estimates of the number of illegal immigrants in Minnesota, but state

demographic officials do not view any of these as definitive. There is also a lack of good information on the age, education, and other characteristics of illegal immigrants. As a result, it is difficult to estimate the economic impact of these immigrants in Minnesota.

Second, previous studies have not provided a comprehensive accounting of the benefits and costs of illegal immigrants in Minnesota. For example, a 2005 study by the Minnesota Department of Administration estimated the additional public costs due to illegal immigrants but did not estimate the additional tax revenues they generate.

Economic Impact of Immigrants

The United States has often been described as a “nation of immigrants,” partly reflecting the important roles played by immigrants in the early history of the nation. Immigrants today comprise a smaller share of the nation’s population than they did a century ago. Still, about one million people legally immigrate to the U.S. each year, in addition to people who enter the country without proper authorization.¹

In April 2005, the Legislative Audit Commission directed the Office of the Legislative Auditor to evaluate eligibility determination of noncitizens for public assistance programs.² The commission also requested a companion study that would examine the economic impacts of immigrants, partly to provide a broader context for legislative discussions of immigration issues. This second immigrant-related study addresses the following questions:

- **What does existing research show about the economic impacts of immigrants?**
- **What does existing research show about the impact of immigration on government costs and revenues?**
- **Are there reasons to think that the economic or fiscal impacts of immigration in Minnesota might be significantly different from those estimated in previous studies?**

To address the first two questions, we collected and reviewed previous studies that have examined immigration’s economic and fiscal impacts. We did not conduct our own analysis of immigration’s economic and fiscal impacts, nor did we examine the social impacts associated with immigration and cultural diversity. To address the third research question, we examined demographic data regarding the characteristics of the immigrant populations in Minnesota and the nation as a whole.

Throughout this report, we use the term “immigrants” to mean people residing in the U.S. who were born in another country. Some immigrants are U.S. citizens,

¹ According to data presented in U.S. Department of Homeland Security, Office of Immigration Statistics, *2004 Yearbook of Immigration Statistics* (Washington, D.C., January 2006), 5, the number of people granted “lawful permanent residence” in the U.S. between 2001 and 2004 averaged 945,000 per year.

² Our report on this topic (*Public Health Care Eligibility Determination for Noncitizens*) was issued in April 2006.

and some are not. One section of this report discusses immigrants who have not been lawfully authorized to reside in the United States, but much of the research and demographic data we reviewed did not distinguish between foreign-born residents who immigrated legally and those who did not.

MINNESOTA'S IMMIGRANT POPULATION

Census data indicate that:

- **Immigrants comprise a smaller proportion of the total population in Minnesota than in the nation as a whole.**

According to the 2000 U.S. census, there were about 260,000 immigrants living in Minnesota. Immigrants comprised 5.3 percent of Minnesota's population and 11.1 percent of the nation's population.³ In 2000, Minnesota's percentage of immigrants in its population ranked 24th highest among the 50 states.⁴

A growing number of people have immigrated to the United States in recent years. For example, the average annual number of people who legally immigrated to the U.S. between 1990 and 2004 was 127 percent higher than the average during the 1970s and 284 percent higher than the average during the 1950s.⁵ Minnesota has also experienced growth in its immigrant population. In fact,

- **Minnesota's immigrant population grew more rapidly during the 1990s than the nation's.**

Between 1990 and 2000, the number of immigrants grew 130 percent in Minnesota, compared with an increase of 57 percent nationally.⁶ Minnesota's 1990-2000 rate of growth in its immigrant population was the 12th highest among the states. Minnesota's influx of immigrants has continued since 2000, with the U.S. Census Bureau estimating that about 71,000 of Minnesota's total population increase of 213,000 between 2000 and 2005 was due to "international migration."⁷

³ U.S. Census Bureau, *The Foreign-Born Population: 2000* (Washington, D.C., December 2003), 3. The Census Bureau's American Community Survey estimated that foreign-born residents comprised 6.1 and 12.0 percent of Minnesota's and the nation's 2004 populations, respectively, although these estimates have wider margins of error than those from the decennial census. The Census Bureau's population estimates do not distinguish between legal and illegal immigrants.

⁴ *Ibid.*

⁵ Minnesota Office of the Legislative Auditor analysis of data from U.S. Department of Homeland Security, *2004 Yearbook of Immigration Statistics*, 5.

⁶ *Ibid.*

⁷ U.S. Census Bureau, "Table 4: Cumulative Estimates of the Components of Population Change for Counties of Minnesota: April 1, 2000 to July 1, 2005," <http://www.census.gov/popest/counties/CO-EST2005-04.html>, accessed April 6, 2006. About 161,000 of the increase was due to the natural increase in the population (births exceeding deaths), and there was a net outflow of nearly 17,000 due to domestic migration.

About 5 percent of Minnesota's residents in 2000 were born in countries other than the United States.

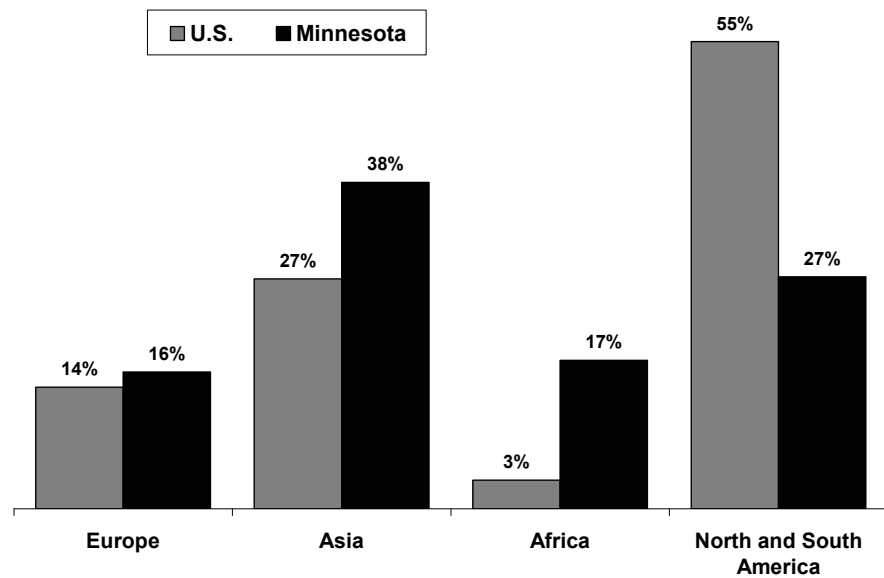
In the following sections, we highlight some key differences between the immigrant population in Minnesota and in the U.S. as a whole. These differences provide background for the later discussions of immigration’s economic and fiscal impacts.

Country of Origin

Figure 1 shows that, to a large degree, Minnesota’s immigrants come from different parts of the world than immigrants in the nation as a whole. Specifically,

- **Minnesota’s immigrant population has a larger share of Asian and African residents and a smaller share of Latino residents than the immigrant population in the nation as a whole.**

Figure 1: Continent of Birth for Immigrants in the U.S. and Minnesota, 2004



The composition of Minnesota’s immigrant population is somewhat different from the nation’s.

SOURCE: U.S. Census Bureau, 2004 American Community Survey.

An estimated 55 percent of the United States’ immigrant population in 2004 was originally from North or South America, compared with only 27 percent of Minnesota’s immigrant population. Mexico alone accounted for an estimated 30 percent of the nation’s immigrant population and 14 percent of Minnesota’s immigrant population. Other Latin American countries accounted for 22 percent of the U.S. immigrant population and 10 percent of Minnesota’s immigrant population. Meanwhile, the proportions of foreign-born Minnesota residents

who were from Asia (38 percent) and Africa (17 percent) were much larger than the proportions of immigrants from these continents in the nation as a whole.⁸

In the 2000 census, the countries of birth of the largest number of Minnesota's foreign-born residents were Mexico (41,592), Laos (25,968), and Vietnam (15,727).⁹ But the countries that account for the largest number of *new* immigrants change somewhat from year to year. In the most recent year for which data were available (2004), the largest numbers of international immigrants to Minnesota came from Somalia (1,445), Ethiopia (798), India (707), Mexico (692), and the Philippines (569).¹⁰

In recent years, refugees have been a sizable part of Minnesota's immigrant population.

People who are fleeing persecution in their home countries represent a significant share of Minnesota's immigrant population. In recent years, refugees and asylees have typically accounted for between one-fourth and one-half of the state's annual number of new immigrants.¹¹ In contrast, refugees are a much smaller part of the nation's new immigrant population (about 8 percent in 2004). Minnesota's number of new refugees jumped to 7,345 in 2004, well above the annual average of 2,833 from the previous five years.¹²

Age

The age of immigrants can have important implications for their impact on taxpayers. For example, foreign-born children living in Minnesota are subject to the state's compulsory education laws, and public schools provide K-12 education to many foreign-born children (as well as the U.S.-born children of immigrants). Census data indicate that:

- **Children comprise a larger part of the immigrant population in Minnesota than in the nation as a whole.**

⁸ U.S. Census Bureau, 2004 American Community Survey, Table B05006, "Place of Birth for the Foreign-Born Population."

⁹ U.S. Census Bureau, Census 2000 Summary File 3, Table PCT19, "Place of Birth for the Foreign-Born Population."

¹⁰ U.S. Census Bureau, 2004 American Community Survey, Table B05006, "Place of Birth for the Foreign-Born Population."

¹¹ Barbara J. Ronningen, *Immigrants in Minnesota: An Increasingly Diverse Population* (St. Paul: Minnesota State Demographic Center, December 2000), 3, notes that the percentage ranged from 24 to 46 percent between 1987 and 1998. In 2004, the number of refugees entering Minnesota was 50 percent of the state's total number of new immigrants, according to data from the U.S. departments of Homeland Security and Health and Human Services.

¹² Minnesota Department of Health, "Refugee Health Program: Primary Refugee Arrivals to Minnesota (Notifications Received by MDH), 1979-2004," <http://www.health.state.mn.us/divs/idepc/refugee/states/refcummm.pdf>, accessed April 3, 2006. The 2004 refugees included 3,257 Hmong refugees from Laos and 2,322 refugees from Somalia. These refugees were not reported in the 2004 national data on the number of authorized international immigrants; most will probably be reported in the 2005 data.

As shown in Table 1, 17 percent of Minnesota’s 2000 immigrant population was under age 18, compared with 10 percent nationally.¹³ In addition, Minnesota’s immigrant population had a higher percentage of large families than did immigrants nationally. In 2000, 10 percent of Minnesota’s immigrant households with children had at least five children, compared with 4 percent nationally.¹⁴

Minnesota’s immigrant population is somewhat younger than the nation’s.

Table 1: Age Distribution of Minnesota and U.S. Immigrant Populations, 2000

Age Group	Percentage of Immigrants per Age Group	
	Minnesota	U.S.
Under 12	8.8%	5.0%
12 to 17	8.3	5.3
18 to 24	14.2	11.4
25 to 34	25.2	22.5
35 to 44	18.2	21.5
45 to 64	17.3	23.7
65 and older	8.0	10.7
	100.0%	100.0%

NOTE: “Immigrants” includes all people living in Minnesota or the U.S. who were born in a foreign country.

SOURCE: Office of the Legislative Auditor analysis of data from U.S. Census Bureau, Census 2000 Sample Data File.

Adults who are in their prime working years are important revenue generators for federal, state, and local governments, particularly through earnings-related taxes and sales taxes related to consumer purchases. One analyst observed that the concentration of immigrants in “youthful labor-force ages” has consistently been the immigrant characteristic that is most directly related to immigration’s economic effects.¹⁵ Data indicate that:

- **The immigrant population consists mostly of working-age people, and Minnesota’s population of adult immigrants is somewhat younger than the population of adult immigrants nationally.**

In 2000, 75 percent of Minnesota’s immigrant population was between the ages of 18 and 64.¹⁶ As shown in Table 1, Minnesota exceeded the nation as a whole

¹³ This partly reflects the fact that, compared with the nation as a whole, a larger portion of Minnesota’s immigrant population arrived in the U.S. during the 1990s. However, even among foreign-born residents who entered the U.S. between 1990 and 2000, children under 18 comprised 26 percent of Minnesota’s immigrant population, compared with 21 percent for the U.S.

¹⁴ U.S. Census Bureau, Census 2000 Sample Data File.

¹⁵ Julian L. Simon, *Immigration: The Demographic and Economic Facts* (Washington, D.C.: Cato Institute and National Immigration Forum, December 1995), 3.

¹⁶ Minnesota’s foreign-born population included a higher proportion of working-age persons than the native-born population. In 2000, 62 percent of Minnesota’s native-born population was between the ages of 18 and 64.

in its shares of the immigrant population that were in the 18 to 24 and 25 to 34 age groups. Meanwhile, Minnesota's percentage of the immigrant population in the 35 to 64 age range was smaller than that of the U.S.

Public costs for programs such as Social Security and Medicare are affected by the number of elderly people in the population. In 2000, people age 65 and older comprised 8 percent of Minnesota's immigrant population, compared with 11 percent of the nation's immigrant population.

Employment, Income, and Poverty Status

Most adult immigrants are in the labor force—that is, they are employed or actively seeking employment. Nationally, 71 percent of immigrants ages 25 to 54 were in the labor force in 2000, compared with 75 percent in Minnesota.¹⁷

In both the nation as a whole and in Minnesota, most immigrants who were in the labor force were employed. According to the 2000 census, 94.3 percent of Minnesota immigrants in the labor force were employed, compared with 93.2 percent nationally.¹⁸ The manufacturing industry employed the largest proportion of immigrant workers, accounting for 25 percent of the immigrant workers in Minnesota and 17 percent nationally.

The 2000 census also indicated that:

- **Minnesota's immigrant population had higher median earnings than the immigrant population nationally, but it also had a higher poverty rate.**

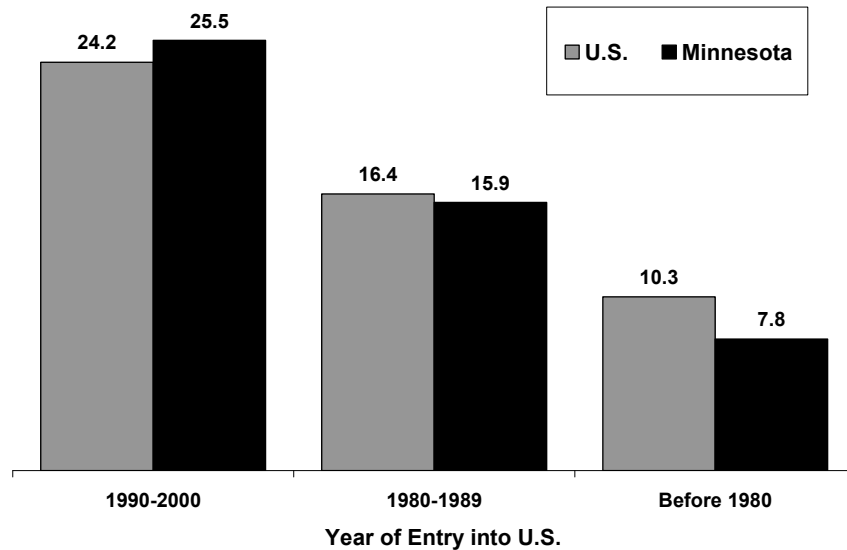
For our analysis of earnings, we focused on immigrants who were employed in full-time work. Minnesota's immigrants who were full-time workers had median earnings that were higher than comparable immigrant workers in the nation as a whole—about 7 percent higher for males and 5 percent higher for females. This may reflect opportunities for higher earnings that Minnesota workers, in general, appear to have. For example, full-time workers in Minnesota's general population had annual earnings in 2000 that were higher than comparable workers in the U.S.—about 7 percent higher for males and 5 percent higher for females.

Although Minnesota immigrants had higher median earnings than their counterparts nationally, Minnesota immigrants were more likely to live in households with incomes below the federal poverty line. The poverty rate for Minnesota's immigrants was 19.5 percent, compared with 17.9 percent for the U.S. Minnesota's higher poverty rate appears to have partly reflected the relatively high percentage of recent arrivals among the state's immigrant population. As shown in Figure 2, at both the national and state levels, immigrants who came to the U.S. during the 1990s were much more likely to live in poverty than people who came to the U.S. in earlier years.

¹⁷ Among immigrants ages 25 to 54, Minnesota had higher labor force participation rates for men (82 percent vs. 80 percent) and women (66 percent vs. 61 percent) than the nation as a whole.

¹⁸ These percentages are based only on people age 16 and older.

Figure 2: Percentage of Immigrants Living in Households with Incomes Below the Federal Poverty Line in 1999, by Year of Immigration



Immigrants who have lived in the U.S. for a long time are less likely to be poor than recent immigrants.

SOURCE: Office of the Legislative Auditor analysis of data from U.S. Census Bureau, Census 2000 Sample Data File.

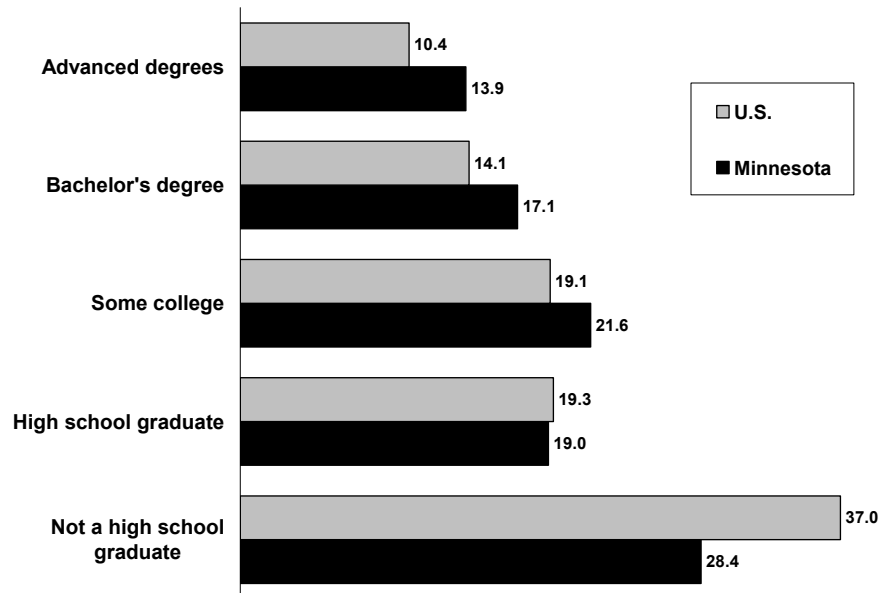
Education

Later in this report, we note that national research has found a relationship between immigrants’ levels of educational achievement and their long-term fiscal impacts. On average, better-educated immigrants (and their descendants) have been more likely than other immigrants to produce public revenues that exceed their public costs. Our review of census data indicated that:

- **Minnesota’s immigrant population in 2000 was better educated, on average, than the nation’s immigrant population.**

Figure 3 shows that 28 percent of Minnesota’s immigrant population over age 24 did not have a high school diploma, compared with 37 percent nationally. Meanwhile, 53 percent of Minnesota’s immigrant adults had completed at least some college, compared with 44 percent nationally.

Figure 3: Educational Achievement of Immigrants Over Age 24, 2000



High school drop-outs are a smaller share of the adult immigrant population in Minnesota than in the nation.

SOURCE: Office of the Legislative Auditor analysis of data from U.S. Census Bureau, Census 2000 Sample Data File.

Citizenship Status

Many immigrants eventually apply to become “naturalized” U.S. citizens. In 2000, 37 percent of Minnesota’s foreign-born residents were U.S. citizens, which was slightly lower than the nation as a whole (40 percent). This difference mainly reflected the fact that Minnesota’s foreign-born population included a larger proportion of recent immigrants than the foreign-born population nationally.¹⁹

ECONOMIC IMPACT ON IMMIGRANTS

It is reasonable to assume that immigrants generally move to the United States because they believe they will be better off by doing so. Some seek opportunities to improve the financial well-being of themselves and their families, while others seek refuge from persecution in their home countries.

¹⁹ Among people who entered the U.S. between 1990 and 2000, the percentage that were citizens in 2000 was 16 percent for Minnesota and 13 percent for the U.S. Among people who entered the U.S. between 1980 and 1989, the percentage that were citizens in 2000 was 51 percent for Minnesota and 45 percent for the U.S. Among people who entered the U.S. before 1980, the percentage that were citizens in 2000 was 78 percent for Minnesota and 74 percent for the U.S.

A study of immigration's economic impacts by the National Research Council noted that immigration's most direct effects are on "the immigrants themselves."²⁰ There has been little research on the specific economic gains that individual immigrants experience in the U.S., compared with their economic status prior to immigrating.²¹ However, aggregate information about the living standards of immigrants' home countries can be used to draw reasonable conclusions about the likely impact of immigration. Recent data indicate that:

- **Most immigrants come to Minnesota from countries with much lower living standards than the United States.**

For example, Table 2 shows the estimated 2005 "gross domestic product" (GDP) per capita for individual countries from which Minnesota received at least 200 legal immigrants in 2004.²² The United States' estimated GDP per capita was \$41,800, while the GDP per capita of all countries shown in Table 2 was \$10,700 or less. This suggests that, for many immigrants, the U.S. provides opportunities for higher earnings than the immigrants could receive in their home countries.

Census data indicate that the 1999 earnings of immigrants who lived in Minnesota totaled about \$5 billion. This represented 5.4 percent of Minnesotans' total earnings in 1999, as self-reported by individuals in the 2000 census.²³

Immigrants typically have opportunities for higher earnings in the U.S. than in their home countries.

Table 2: Gross Domestic Product per Capita for Select Countries from which Minnesota's 2004 Immigrants Came

Country	Number of Immigrants to Minnesota in 2004	Gross Domestic Product (\$) per Capita
United States	NA	\$41,800
Somalia	1,445	600
Ethiopia	798	800
India	707	3,400
Mexico	692	10,000
Philippines	569	5,100
Vietnam	503	3,000
Kenya	488	1,200
People's Republic of China	489	6,200
Liberia	468	700
Russia	303	10,700

SOURCE: Minnesota State Demographic Center (number of immigrants); U.S. Central Intelligence Agency, *The World Factbook*, <http://www.cia.gov/cia/publications/factbook/rankorder/2004rank.html>, accessed March 27, 2006.

²⁰ National Research Council, *The New Americans: Economic, Demographic, and Fiscal Effects of Immigration*, ed. James P. Smith and Barry Edmonston (Washington, D.C.: National Academy Press, 1997), 7.

²¹ *Ibid.*, 174.

²² Gross domestic product is the value of all final goods and services produced within a nation in a given year. Economists often use this measure to compare nations' living conditions.

²³ R. Thomas Gillaspay, Minnesota State Demographic Center, E-mail to Joel Alter, Minnesota Office of the Legislative Auditor, May 4, 2006.

ECONOMIC IMPACT ON U.S.-BORN WORKERS

Immigration can have a variety of impacts on U.S.-born workers. For example, it may affect the wages these workers receive and the prices they pay for goods and services. Immigration may also affect the well-being of the businesses in which U.S.-born employees work—for example, by increasing the number of persons in the U.S. who are seeking goods and services, and perhaps by helping businesses achieve greater productivity or cost-effectiveness.

This section discusses research regarding the overall economic impacts of immigration on U.S.-born workers. However, we begin with a discussion of wage impacts, which are one component of immigration's broader economic impacts. We singled out wage impacts partly because they have been a subject of considerable discussion, and the magnitude of these impacts remains a matter of debate among researchers. Also, assumptions about the size of immigration's impact on wages are key factors in economists' estimates of the overall economic impacts of immigration.

Immigrants accounted for much of the recent increase in the nation's labor force.

Impact on Wages of U.S.-Born Workers

Immigration has undeniably increased the supply of workers in the United States' economy. One analysis found that new immigrants accounted for 47 percent of the increase in the U.S. civilian labor force between 1990 and 2000, as well as 60 percent of the increase between 2000 and 2004.²⁴ But there remains debate about the effects of immigration on the wages of people who were already in the U.S. workforce. Economic theory suggests that the wage impacts of immigration may differ, depending on the extent to which the new workers' skills substitute for or complement the skills of non-immigrant workers. For example, in cases where immigrants' skills are similar to those of other workers, immigration might increase job competition and lower the wages for these types of jobs. On the other hand, an influx of low-skilled immigrants could increase demand for people in higher-skilled job categories (such as managers and trainers), perhaps increasing wages in these complementary jobs.

Also, economists believe that the impact of immigration on wages depends partly on the responses of employers and employees over time. For example, some economists believe that a growing supply of labor leads to increased production of labor-intensive goods, but with little change in wages over time.²⁵ Or, some economists have theorized that an influx of new workers into certain job

²⁴ Andrew Sum, Neeta Fogg, Ishwar Khatiwada, and Sheila Palmer, *Foreign Immigration and the Labor Force of the U.S.: The Contributions of New Foreign Immigration to the Growth of the Nation's Labor Force and Its Employed Population, 2000 to 2004* (Boston: Center for Labor Market Studies, Northeastern University, July 2004), 2, 12, http://www.nupr.neu.edu/7-04/immigrant_04.pdf, accessed April 12, 2006.

²⁵ Rachel M. Friedberg and Jennifer Hunt, "The Impact of Immigrants on Host Country Wages, Employment and Growth," *Journal of Economic Perspectives* 9, no. 2 (Spring 1995): 29.

categories will lead some existing workers in these fields to seek additional training or move to different places.²⁶

Reputable researchers have undertaken many studies to estimate the actual effects of immigration on the wages of existing workers. We found that:

- **Researchers disagree about the size of immigration's effects on the wages of U.S.-born workers.**

Most studies have examined whether the number of immigrants in particular geographic areas is related to the wage levels in those locations. These “regional studies” have generally found weak relationships between immigration and the wages of U.S.-born workers. A 1995 research summary said that studies in the U.S. and other countries have usually shown that a 10 percent increase in the share of immigrants in the population reduces the wages of native-born people by at most 1 percent.²⁷ In 1997, the National Research Council summarized previous research by stating that “the average [U.S.-born worker’s] wage is slightly lower in labor markets where immigrants tend to reside.”²⁸ According to a more recent analysis that examined data from dozens of American cities:

New evidence from the 2000 Census reconfirms the main lesson of earlier studies: although immigration has a strong effect on relative supplies of different skill groups, local labor market outcomes of low skilled natives are not much affected by these relative supply shocks.²⁹

In contrast, some other researchers—notably Harvard University economist George Borjas—have estimated larger wage impacts using alternative approaches to measuring immigration’s impacts. Borjas has questioned whether studies of individual labor markets have adequately measured the wage impacts of immigration. For example, if immigrants tend to locate in cities with better wage levels and stronger economies, this could mask adverse effects of immigration on wages. Also, Borjas has suggested that existing workers in a region might relocate to other cities in response to an inflow of immigrants. Consequently, Borjas has analyzed the wage impacts of immigration from a national perspective, not a local one. Borjas estimated that immigration between 1980 and 2000 reduced the average annual earnings of U.S.-born men by about 4 percent, at least in the short term. For U.S.-born men without a high school education, Borjas concluded that immigration reduced wages by more than 7

²⁶ For example, see discussions in George J. Borjas, “The Labor Demand Curve *Is* Downward Sloping: Reexamining the Impact of Immigration in the Labor Market,” *Quarterly Journal of Economics* (November 2003): 1335-1374, and Congressional Budget Office, *The Role of Immigrants in the U.S. Labor Market* (Washington, D.C., November 2005), 20.

²⁷ Rachel M. Friedberg and Jennifer Hunt, “The Impact of Immigrants:” 42.

²⁸ National Research Council, *The New Americans*, 221. This study also said that “the one group that appears to suffer significant negative effects from new immigrants are earlier waves of immigrants, according to many studies” (p. 223).

²⁹ David Card, “Is the New Immigration Really So Bad?” *The Economic Journal* (November 2005): 321. Card said that industries in cities receiving large numbers of immigrants have somehow absorbed these newcomers with little apparent impact on wages.

Economists disagree about the size of immigration's impact on wages.

percent in the short term.³⁰ Borjas has acknowledged that the actual wage losses over time might have been less than those cited here, depending on whether short-term wage changes led to changes in capital investment.³¹

Some researchers have attempted to reconcile the different findings of (1) the “regional” studies that have shown that immigration has little impact on wages, and (2) the “national” studies that have usually shown that immigration has sizable negative wage impacts (especially on low-skilled workers).³² For example, a 2003 analysis by Federal Reserve Bank researchers that blended elements of these two approaches concluded that the “negative wage impacts [resulting from immigration] are small in size and concentrated among low-skill, blue-collar occupations.”³³ Similarly, in testimony before the U.S. Congress in 2005, economist Harry Holzer said that “a consensus view among labor economists would probably suggest that immigration has reduced the earnings of less-educated native-born Americans by a modest amount, and perhaps somewhat more among high school dropouts.”³⁴

But, despite such efforts to find common ground among previous studies, it is important to emphasize that there continues to be substantive disagreement among economists about the magnitude of immigration's impact on wages. A recent report by the U.S. Congressional Budget Office said that previous studies

³⁰ George J. Borjas, *Background: Increasing the Supply of Labor Through Immigration: Measuring the Impact on Native-Born Workers* (Washington, D.C.: Center for Immigration Studies, May 2004).

³¹ George J. Borjas, *Wage Trends Among Disadvantaged Minorities*, National Poverty Center Working Paper #05-12 (August 2005), http://www.npc.umich.edu/publications/workingpaper05/paper12/Borjas_WageTrends.pdf, accessed March 20, 2006. Borjas said that “the 1980-2000 immigrant influx reduced the wage of low-educated native workers by 7.0 percent in the short run and by 3.6 percent in the long run” (p. 26).

³² Not all of the studies in each of these two groups have reached similar conclusions. For example, a recent study that examined impacts from a national perspective concluded that “contrary to the findings of previous literature, overall immigration generates a large positive effect on the average wages of U.S.-born workers.” It said that U.S.-born and foreign-born workers with similar education and experience levels are not as substitutable as previously assumed. See Gianmarco I.P. Ottaviano and Giovanni Peri, *Rethinking the Gains from Immigration: Theory and Evidence from the U.S.*, National Bureau of Economic Research Working Paper 11672, <http://www.nber.org/papers/w11672>, accessed March 24, 2006.

³³ Pia M. Orrenius and Madeline Zavodny, *Does Immigration Affect Wages? A Look at Occupation-Level Evidence*, Federal Reserve Bank of Dallas Research Department, Working Paper 0302 (August 2003), <http://www.dallasfed.org/research/papers/2003/wp0302.pdf>, accessed March 27, 2006. This study also found no evidence of adverse wage effects on medium- and high-skilled U.S.-born workers, noting that “there may be complementarities between native workers and newly arrived immigrants in the top skill categories” (p.20). Another attempt to reconcile the findings from the “regional” and “national” studies concluded that immigration has small wage impacts if the national analysis accounts for the impact that incarceration has had on the wages of low-skilled non-immigrants—see Steven Raphael and Lucas Ronconi, *Reconciling National and Regional Estimates of the Effects of Immigration on U.S. Labor Markets: The Confounding Effects of Native Male Incarceration Trends* (October 2005), <http://ist-socrates.berkeley.edu/~raphael/immigration%20and%20institutionalization%20october%2020051.pdf>, accessed March 29, 2006.

³⁴ Harry J. Holzer, “Economic Impacts of Immigration,” Testimony to the Committee on Education and the Workforce, U.S. House of Representatives, November 16, 2005.

“reveal little consensus,”³⁵ and another review of the research said that the current debate “remains active and unresolved.”³⁶

Overall Impact on U.S.-Born Workers

However, most economists have concluded that, in aggregate, U.S.-born workers experience economic gains due to immigration that offset adverse wage effects.

Even if some workers experience wage declines due to immigration, this does not necessarily mean that immigration results in net losses for U.S.-born workers. New immigrants can contribute to economic benefits for existing workers that help to offset any wage reductions. First, immigrants create new demand for goods and services with the wages they earn. Thus, immigrants—who today represent about 12 percent of the U.S. population—have enlarged the size of the American economy. Second, economists note that immigration can enable businesses to use their labor more productively and efficiently. For example, when employers use immigrants to meet their needs for low-skilled labor, other workers may be freed up to specialize in production that requires more skills. Third, immigrant labor can reduce the prices of certain goods and services. One study estimated that Americans of all income levels made about 5 percent of their consumer expenditures on goods and services produced by immigrant labor, and it concluded that the benefits of lower prices due to immigration are shared “quite uniformly” by American consumers.³⁷

Economists have tried to determine whether, in aggregate, immigration’s economic benefits to non-immigrants are larger than its negative impacts. A key analysis of these impacts was produced by the widely-respected National Research Council in 1997. It considered the wage impacts of immigration, but it also analyzed broader economic impacts based on “plausible assumptions.”³⁸

- **The National Research Council concluded that U.S. immigration results in modest net economic gains for non-immigrants, perhaps between \$1 billion and \$10 billion per year in the multi-trillion dollar American economy.**³⁹

The council said that its estimates of immigration’s favorable but small economic impacts were similar to those made previously in “somewhat more sophisticated calculations.”⁴⁰ The council’s estimates indicated that immigration annually increased the income of non-immigrants by an amount totaling between 0.01 and

³⁵ Congressional Budget Office, *The Role of Immigrants in the U.S. Labor Market*, 22.

³⁶ Giovanni Peri, “Immigrants, Skills, and Wages: Measuring the Economic Gains from Immigration,” *Immigration Policy In Focus* 5, no. 3 (March 2006): 5.

³⁷ National Research Council, *The New Americans*, 235.

³⁸ *Ibid.*, 135-165. A subsequent analysis (George J. Borjas, *Heaven’s Door: Immigration Policy and the American Economy* (Princeton, NJ: Princeton University Press, 1999), 94-104), examined key assumptions in the economic model used by the National Research Council, such as the assumption that immigration does not increase the amount of capital in the U.S. economy. It concluded that the assumptions were reasonable or that alternative assumptions would not necessarily have led to significantly different findings.

³⁹ National Research Council, *The New Americans*, 153.

⁴⁰ *Ibid.*, 152-153.

While the overall economic impact of immigration is small, certain workers, communities, and industries may experience significant impacts.

0.14 percent of the national gross domestic product.⁴¹ As one researcher noted, an impact of \$8 billion per year—which is within the range estimated by the National Research Council—would be equivalent to increased income of less than \$30 per U.S.-born person.⁴²

The National Research Council study concluded that these net economic benefits result from differences in the skill levels of immigrants and U.S.-born workers. This view was recently echoed in an economic report prepared by the Bush Administration. That report said that “the more different immigrants are from natives, regardless of whether they have fewer or more skills, the bigger are the economic gains from immigration.”⁴³ As time passes, the initial economic gains that result from immigration may diminish as the skills and education levels of immigrants and their descendants become more similar to those of non-immigrants. “To put it simply,” the National Research Council said, “if the children of immigrants are just like the children of the native-born, we are back to the case in which all we are doing is scaling up the population and economy with no impact on per capita incomes.”⁴⁴

Not all economic analysts agree that immigration results in positive economic impacts, in aggregate. A recent unpublished study by two Columbia University economists concluded that immigration causes significant economic losses to U.S.-born workers because it provides immigrants with access to the nation’s superior technologies that they would not otherwise have.⁴⁵ However, such findings are exceptions to the predominant findings in previous research, and they have not been published or scrutinized to the extent of previous estimates.

Most analyses have concluded that immigration has a small net economic impact on non-immigrants, but it may have large effects on certain employees and industries. Existing workers in meat packing plants, agricultural production, and roofing, among others, have faced significant new job competition from immigrants. According to economist George Borjas:

Even though the average native gains somewhat from immigration, this does not mean that everyone in the country gains. There are distinct groups of winners and losers. The winners are the people who employ or use immigrant services,

⁴¹ The U.S. gross domestic product in 1997 was about \$8 trillion.

⁴² George J. Borjas, *Heaven’s Door*, 91.

⁴³ *Economic Report of the President* (Washington, D.C., February 2005), 104. The report also drew the more general conclusion that the economic benefits of immigration exceed the costs (p. 115).

⁴⁴ *National Research Council, The New Americans*, 158. Similarly, a recent analysis concluded that assimilating immigrants—that is, those who have lived in the U.S. for a while—tend to have more negative impacts on the wages of U.S.-born workers than new immigrants. See Orrenius and Zavodny, *Does Immigration Affect Wages?*, 20-21.

⁴⁵ Donald R. Davis and David E. Weinstein, *Technological Superiority and the Losses from Migration*, National Bureau of Economic Research Working Paper 8971 (June 2002), <http://www.nber.org/papers/w8971>, accessed March 15, 2006. This paper estimated that annual immigration-related losses in the incomes of U.S. natives totaled about \$70 billion. The authors acknowledged that immigrants may make societal contributions that were not adequately reflected in their analysis, and they suggested continuing study to quantify these contributions.

and achieve their economic goals at lower costs. The losers are the people who compete with immigrant workers, and experience a corresponding reduction in their income. In practical terms, post-1965 immigration has shifted income away from less-skilled natives toward highly-skilled natives and owners of capital.⁴⁶

We are not aware of studies that have estimated the overall net impact of Minnesota immigrants' costs and benefits on Minnesota's non-immigrants. However, the National Research Council's conclusions were based on what it said was a realistic range of assumptions regarding immigration's impact on non-immigrant wages. Thus, perhaps the modest impacts estimated in the National Research Council analysis represent plausible estimates of the state level impacts, too. As the council concluded, "Many other factors are far more critical to the U.S. economy than is immigration, including savings and investment and the human capital of U.S. workers."⁴⁷

IMMIGRANTS' IMPACTS ON PUBLIC COSTS AND REVENUES

From the taxpayer's perspective, it is important to consider the balance between the tax revenues generated by immigrants (and their children) and the costs of the public services they use. These effects on the public sector's finances are often referred to as "fiscal impacts." Estimating these impacts is a challenging and complicated task, for several reasons. First, a comprehensive analysis of immigrants' fiscal impacts requires consideration of the public sector's long-term costs and revenues, not just the costs and revenues related to immigrants in the current year. Such analyses involve many assumptions regarding immigrants' economic well-being over an extended period of time, as well as their use of public programs. Second, immigrants have different fiscal impacts on different levels of government (federal, state, and local). Conclusions about the impact of immigrants can depend on whether the analysis includes all of these levels or only some of them. Third, fiscal impacts depend partly on the number and characteristics of a state's immigrants, and these can vary considerably from one state to another.⁴⁸

National Impacts

At the national level, the National Research Council's 1997 report on immigration provided arguably the most comprehensive analysis of

⁴⁶ George J. Borjas, *Heaven's Door*, 103.

⁴⁷ National Research Council, *The New Americans*, 164.

⁴⁸ Some fiscal impacts are not specifically related to immigrants' characteristics. For example, any population growth—by immigrants or others—means there will be more use of public infrastructure, such as roads and sewers. Also, any population growth means there will be more people to help pay for expenditures that would otherwise occur, such as expenditures for national defense or existing public debt.

immigration's fiscal impacts.⁴⁹ The council's analysis relied partly on detailed studies of immigration's short-term fiscal impacts in New Jersey and California. The council also estimated long-term impacts on a nationwide basis, but the council said it would not make sense to make state-specific estimates of long-term impacts because of the expected mobility of individuals over the course of their lifetimes.

- **The National Research Council said that new immigrants appear likely to have positive fiscal impacts, in aggregate, over the long term.**

The council estimated the “net present value” of immigrants' fiscal impacts over time. This is a standard economic approach for analyzing multiple years of costs and benefits in current dollars.⁵⁰

The council found that the likely fiscal impacts of immigrants and their descendants vary considerably, depending on their characteristics. For example, it estimated strongly positive long-term fiscal impacts for immigrants with more than a high school education, somewhat positive impacts for immigrants with a high school education, and slightly negative impacts for immigrants with less than a high school education.⁵¹ Based on typical characteristics of recent immigrants nationally at the time of this study, the council estimated that the average immigrant would have a positive fiscal impact, on balance, over the long term.⁵²

Also, the council found that the fiscal impacts of immigrants depended on their age upon arrival in the U.S. Most immigrants enter the U.S. at a relatively young age, with their prime earning years ahead of them. The study estimated that immigrants arriving between the ages of 10 and 25 usually would produce the most positive fiscal impacts, while immigrants arriving in their sixties would, on average, produce negative fiscal impacts for taxpayers.

The council said that, on average, immigrants and non-immigrants would likely have similar costs per capita for their use of public programs over the course of their lifetimes. Immigrants tend to receive lower Social Security and Medicare benefits than non-immigrants, but immigrants tend to make more use of cash assistance and food assistance programs, the study said. Meanwhile, the council

The most thorough national study showed that, on average, immigrants generate public revenues that exceed their public costs over time.

⁴⁹ National Research Council, *The New Americans*, 254-362.

⁵⁰ Under this approach, future benefits and costs are “discounted”—that is, they are not valued as highly as benefits and costs that occur immediately. The selection of a discount rate is a key assumption in a net present value calculation. The National Research Council used a 3 percent discount rate for many of its estimates, but it also examined the impact of using alternative discount rates. The council's study applied the discount rate to estimated costs and benefits 300 years into the future.

⁵¹ The net present values (in 1996 dollars) were -\$13,000 for immigrants with less than a high school education, +\$51,000 for immigrants with a high school education, and +\$198,000 for immigrants with more than a high school education. These values included the estimated fiscal impacts of both the immigrants and their descendants.

⁵² The average net present value was +\$80,000. National Research Council, *The New Americans*, 348, said that such large net present values have a “surprisingly small” impact on individual taxpayers, computed on an annual basis.

said that, on average, immigrants pay “considerably lower taxes” at each age than do non-immigrants, due to their lower incomes.⁵³

Overall, the council said:

The average fiscal impact of immigrants under the baseline assumptions is positive in part because they tend to arrive at young working ages, in part because their descendants are expected to have higher skills and incomes, in part because they pay taxes for some items, such as national defense and interest on the federal debt, for which they do not impose costs, and in part because they will help to pay the public costs of the aging baby-boom generations.⁵⁴

In the short term, the National Research Council’s estimates showed that immigrants’ cumulative public costs usually exceeded the cumulative public revenues they generated.⁵⁵ However, the National Research Council concluded that long-term estimates were a truer reflection of immigrants’ fiscal impacts. For example, while short-term estimates included the costs of educating immigrants’ children, long-term estimates included the eventual return on this investment (such as taxes on the children’s earnings). In addition, research has shown that “there is significant economic ‘catching up’ between the first and second generations [of immigrants], with the relative wage of the second generation being, on average, about 5 to 10 percent higher than that of the first generation.”⁵⁶

The council’s conclusion that immigrants will typically have positive fiscal impacts on taxpayers was based on costs and revenues aggregated for all levels of government. However,

- **The council estimated that, over the long term, immigration-related public revenues would exceed immigration-related public costs at the federal level, but costs would typically exceed revenues for state and local governments.**

According to the council, the present value of the average immigrant’s overall fiscal impact would be +\$80,000, meaning that long-term public revenues would exceed long-term public costs by this amount (in 1996 dollars). This total would consist of a positive fiscal impact for the federal government (+\$105,000) and a negative fiscal impact for state and local governments (-\$25,000). A subsequent

⁵³ National Research Council, *The New Americans*, 11, 314, 353.

⁵⁴ *Ibid.*, 353.

⁵⁵ The council’s estimates built upon state-level estimates in the following studies: Deborah L. Garvey and Thomas J. Espenshade, “Fiscal Impacts of Immigrant and Native Households: A New Jersey Case Study,” *The Immigration Debate: Studies on the Economic, Demographic, and Fiscal Effects of Immigration*, ed. James P. Smith and Barry Edmonston (Washington, D.C.: National Academy Press, 1998), 66-119; and Michael S. Clune, “The Fiscal Impacts of Immigrants: A California Case Study,” *The Immigration Debate*, 120-182.

⁵⁶ George J. Borjas, *Making it in America: Social Mobility in the Immigrant Population*, National Bureau of Economic Research Working Paper 12088, <http://www.nber.org/papers/w12088>, accessed March 30, 2006.

However, the federal government is more likely to experience fiscal gains from immigrants than state or local governments.

study found a similar pattern—positive fiscal impacts at the federal level and negative fiscal impacts at the state/local level—using a different type of analysis.⁵⁷

The National Research Council said that its estimates of negative fiscal impacts at the state and local levels partly reflected the fact that immigrants tended to have more children and lower incomes than U.S.-born residents. Thus, especially in the years soon after arrival, immigrants tend to consume more education resources, receive more public assistance payments, and pay less in state and local taxes than other residents. Investments such as education may lead to larger tax payments by immigrants and their families, but these would occur later and be shared by various levels of government.

The National Research Council estimated that the federal government's 1996 reforms to the nation's welfare system made the net fiscal impact of immigrants somewhat more positive than they would have been without the changes.⁵⁸ Before these changes, "legal permanent residents"—that is, immigrants authorized to live and work in the U.S.—were eligible for public assistance comparable to U.S. citizens. But, under the reforms, legal permanent residents who entered the U.S. after August 22, 1996, were barred from receiving federal Temporary Assistance for Needy Families (TANF) benefits for five years.⁵⁹ After the five-year period, states have the option of providing federal TANF benefits to such individuals, and a majority of states (including Minnesota) have chosen to do so. In addition, refugees and asylees are eligible for TANF for five years after they enter the U.S. After the five-year period, states have the option to provide TANF benefits to these people, and a majority of states (including Minnesota) have done so.⁶⁰

For the most part, immigrants are subject to the same tax requirements as other Minnesotans.

Implications for Minnesota

In Minnesota, immigrants are, for the most part, subject to the same tax requirements as other residents and are eligible for the same tax refunds and credits.⁶¹ For example, people who buy taxable goods and services in Minnesota are required to pay sales and use taxes, regardless of their citizenship or immigration status. Likewise, federal law says that "all citizens of the United

⁵⁷ Ronald D. Lee and Timothy W. Miller, "The Current Fiscal Impact of Immigrants and Their Descendants: Beyond the Immigrant Household," *The Immigration Debate: Studies on the Economic, Demographic, and Fiscal Effects of Immigration*, 183-205.

⁵⁸ National Research Council, *The New Americans*, 337-339. The council estimated that the net impact of the federal welfare changes would increase the overall average fiscal impact per immigrant from +\$80,000 to +\$88,000 (due to slightly less negative impacts at the state/local level and more positive impacts at the federal level).

⁵⁹ Minnesota's legal permanent residents between the ages of 18 and 69 who have been in the U.S. for at least four years may be eligible for *state-funded* assistance if they meet certain criteria (such as enrollment in a class for instruction in literacy, English as a Second Language class, or citizenship).

⁶⁰ Congressional Research Service, *State Policies on Immigrant Eligibility for Temporary Assistance for Needy Families* (Washington, D.C., April 23, 2004).

⁶¹ Minnesota House of Representatives Research, *Noncitizens and Minnesota Law: A Guide for Legislators* (St. Paul, December 2004), 69.

States, wherever resident, and all resident alien individuals are liable to the income taxes imposed by the [Internal Revenue] Code whether the income is received from sources within or outside the United States.”⁶² This also affects Minnesota residents’ state income taxes, which are computed by starting with federal taxable income. The Minnesota Department of Revenue does not collect information on the immigration or citizenship status of income tax filers, so it is not possible to directly measure the amount of tax revenues paid by immigrants. In addition, the department does not estimate whether the compliance with tax requirements of immigrants differs from that of U.S.-born people.

Minnesota immigrants also use publicly-funded services. For some programs, public agencies have information on the immigration or citizenship status of users, making it possible to determine immigrant-related expenditures. For example, the Minnesota Department of Human Services has information regarding the citizenship status of people enrolled in public assistance programs. Table 3 shows the extent to which noncitizens comprised various programs’ caseloads in early 2005. In fiscal year 2005, noncitizens accounted for about \$333 million in publicly-funded health care payments and \$87 million in public assistance payments (such as cash assistance and food support programs).⁶³ Expenditures for many other types of public services—such as roads, sewers, and parks—are not easily attributed to particular population subgroups, such as immigrants.

Table 3: Enrollment in Minnesota Public Assistance Programs, March 2005

Noncitizens account for significant expenditures in some state programs, such as health care and public assistance.

	Total Individuals Enrolled	Enrolled Noncitizens	Noncitizens as Percentage of Total
Medical Programs			
Medical Assistance	484,827	33,771	7%
MinnesotaCare	140,981	6,964	5
General Assistance Medical Care	38,286	3,441	9
Emergency Medical Assistance	1,065	1,049	99
Refugee Medical Assistance	973	883	91
Other Health Care Programs	<u>32,843</u>	<u>5,498</u>	17
Subtotal	698,975	51,606	7%
Cash and Food Support Programs			
Food Support	170,929	17,303	10%
Minnesota Family Investment Program	104,959	11,693	11%

SOURCE: Minnesota Office of the Legislative Auditor, *Public Health Care Eligibility Determination for Noncitizens* (St. Paul, April 2006), 5.

⁶² Treas. Reg. (2005) 1.1-1(b).

⁶³ Data on health care payments are from Minnesota Office of the Legislative Auditor, *Public Health Care Eligibility Determination for Noncitizens* (St. Paul, April 2006), 8. Data on public assistance payments are from the Minnesota Department of Human Services, and the figure cited (\$87 million) is based on cases in which the applicant for assistance was a noncitizen (it does not include cases with noncitizen members in which the applicant for assistance was a citizen). Cases with a noncitizen applicant accounted for 15 percent of Minnesota’s public assistance expenditures in fiscal year 2005.

There have been no comprehensive analyses of the fiscal impacts of immigrants on Minnesota taxpayers, and we did not conduct such an analysis. Studies in some other states have examined the fiscal impacts of immigration, but they have typically focused on short-term impacts on public costs and revenues rather than analyzing the long-term impacts judged to be preferable by the National Research Council. In our view, the National Research Council study is still the best analysis of immigration's fiscal impacts, even though its findings are not state-specific. To help us consider whether the National Research Council's conclusions would likely apply to Minnesota, we compared the demographic characteristics of the immigrant populations in Minnesota and the nation as a whole. Based on several key demographic characteristics, we concluded that:

- **There is little compelling evidence to suggest that Minnesota immigrants' long-term fiscal impacts would be less positive than those suggested by the National Research Council study.**

Minnesota's immigrants tend to have more of their prime earning years ahead of them than immigrants nationally.

For example, Minnesota's immigrants tend to have more years of schooling and higher incomes, on average, than immigrants nationwide. Also, the immigrant adult population tends to be somewhat younger in Minnesota than in the nation as a whole. Thus, compared with the nation, Minnesota's immigrants tend to have more of their prime earning years ahead of them (and presumably more years to pay taxes on their earnings and purchases). Minnesota's immigrant population has a larger proportion of children under age 18 than the nation's immigrant population, so education expenditures could be an important short-term factor affecting Minnesota immigrants' public costs. On the other hand, elderly people often have higher public costs than the public revenues they generate in a given year, and people age 65 and older represent a smaller share of the immigrant population in Minnesota than they do in the U.S. population.

Refugees comprise a larger share of the immigrant population in Minnesota than in the nation as a whole. In 2004, the number of refugees and asylees who came to Minnesota immediately upon entering the U.S. was about 50 percent of the state's total number of new immigrants, which was higher than the percentage of any other state.⁶⁴ In fiscal year 2005, refugees and asylees comprised 44 percent of the noncitizens in Minnesota who received public health care benefits.⁶⁵ Previous national research has indicated that refugees average higher public costs upon arrival than other types of immigrants.⁶⁶ However, it is unclear whether the high proportion of refugees in Minnesota's immigrant population will have long-term fiscal impacts that are more adverse than those found in the National

⁶⁴ Minnesota Office of the Legislative Auditor analysis, comparing (1) the number of 2004 refugees reported by the U.S. Department of Health and Human Services Office of Refugee Resettlement, and (2) the number of 2004 immigrants reported by the U.S. Department of Homeland Security. In most cases, refugees who entered the U.S. in 2004 would not have been counted in the federal government's data on total immigrants until a subsequent year, but this comparison illustrates the magnitude of Minnesota's refugee population.

⁶⁵ Minnesota Office of the Legislative Auditor, *Public Health Care Eligibility Determination for Noncitizens*, 9.

⁶⁶ Georges Vernez and Kevin F. McCarthy, *The Costs of Immigration to Taxpayers: Analytical and Policy Issues* (Santa Monica, CA: RAND, 1996), 48, said that several studies show "that refugees admitted on humanitarian grounds during the past 20 years are far and away the highest users of some public services."

The educational performance of immigrants' children and grandchildren will have important implications for their future earnings and tax payments.

Research Council study. One study found that refugees tend to have lower annual earnings upon arrival into the U.S., but their average earnings eventually surpass those of people who immigrated for economic reasons.⁶⁷

A factor that could have a significant effect on the long-term fiscal impact of Minnesota's immigrants is the performance of their children and grandchildren in school. Various studies have indicated that the children of immigrants often complete more education and earn more than their parents did.⁶⁸ In fact, the taxes paid by the children and grandchildren of immigrants were a major factor contributing to the estimates of positive long-term fiscal impacts in the National Research Council study. However, there is no guarantee that the patterns of inter-generational improvements that have occurred in past immigrant populations will continue in the future.

The Minnesota Department of Education has statewide data on student educational performance for various racial and ethnic subgroups, but this information does not specifically identify students who were born outside the U.S. Thus, it is difficult to determine on a statewide basis exactly how children from immigrant families have fared in school. Data have indicated academic performance problems among some of Minnesota's racial and ethnic subgroups, including some groups that have significant numbers of immigrants. For example, Hispanic students were the fastest growing racial or ethnic subgroup among Minnesota's K-12 student population between fiscal years 2001 and 2005, and this group's test scores and graduation rates have lagged well behind those of non-Hispanic white students.⁶⁹ It would be useful to have statewide academic performance data on other subgroups (such as Somali and Hmong students) that include many immigrants, but these groups are not specifically tracked in the Department of Education's performance information.⁷⁰

As noted earlier, the National Research Council concluded that, on average, state governments were more likely than the federal government to have immigration-related public costs that exceed immigration-related public revenues over the long term. It is worth noting, however, that any net state costs of immigration in Minnesota would be spread over a larger share of population than in many states. This is because immigrants represent about a smaller share of the total population in Minnesota (5 percent, compared with 11 percent nationally).

⁶⁷ Kalena Cortes, *Are Refugees Different from Economic Immigrants? Some Empirical Evidence on the Heterogeneity of Immigrant Groups in the United States*, Institute for the Study of Labor Discussion Paper 1063 (March 2004), <ftp://repec.iza.org/RePEc/Discussionpaper/dp1063.pdf>, accessed March 28, 2006. The study tracked a cohort of people who entered the U.S. between 1975 and 1980. In 1980, the refugees had 6 percent lower earnings than people who immigrated for economic reasons, but by 1990 the refugees' earnings exceeded the economic immigrants' earnings by 20 percent. The analysis found that the results were not attributable to any single country of origin or ethnic group.

⁶⁸ For example, see National Research Council, *The New Americans*, 355-358, and George J. Borjas, *Making it in America: Social Mobility in the Immigrant Population*.

⁶⁹ For example, the high school graduation rates of Hispanic students were below 60 percent during the 2001-05 period, much lower than the 85 to 90 percent rates for white, non-Hispanic students.

⁷⁰ Performance data on Somali and Hmong students are reported within broader racial subgroups (blacks and Asians, respectively).

IMPACTS OF ILLEGAL IMMIGRANTS

There has been considerable speculation about the impact of illegal immigrants on Minnesota's economy and its taxpayers.⁷¹ We found that:

- **There are no definitive data regarding the number and demographic characteristics of illegal immigrants in Minnesota, nor have there been definitive estimates of illegal immigrants' net economic and fiscal impacts on Minnesotans.**

The impacts of illegal immigrants depend partly on how many there are, and there have been various estimates of the overall size of this population. In a 2003 report, the U.S. Immigration and Naturalization Service estimated that Minnesota had 60,000 illegal immigrants in 2000.⁷² Meanwhile, a nonpartisan research organization (the Pew Hispanic Center) produced estimates in 2005 of each state's illegal immigrant population, and it estimated that Minnesota had between 55,000 and 85,000.⁷³ A 2005 report prepared by the Minnesota Department of Administration said that, according to "recent estimates," there were 80,000 to 85,000 illegal immigrants in Minnesota.⁷⁴

However, the Minnesota State Demographic Center has questioned the accuracy of previous estimates. In 2004, the center said that the Department of Homeland Security's estimate of 60,000 illegal immigrants "seems very high given the preponderance of Latinos in illegal populations in the U.S. and the small number of noncitizens in Minnesota's Latino population."⁷⁵ In addition, staff from the Minnesota State Demographic Center told us that the Pew Hispanic Center's estimating techniques may not accurately reflect the unique make-up of Minnesota's immigrant population. For example, they said, the Pew techniques apparently do not adjust for the fact that, compared with other states, Minnesota's immigrant population is comprised of an unusually large share of refugees (who, by definition, are not illegal immigrants) and people from Asia and Africa (who rarely enter the U.S. without authorization). Staff of the Minnesota State Demographic Center do not think there are reliable data on the number of illegal immigrants in Minnesota, and they have not produced their own estimate.

Little is known about illegal immigrants in Minnesota.

⁷¹ Terms such as "illegal," "undocumented," and "unauthorized" have been used to describe the population of immigrants who are living in the U.S. without proper authorization. These terms are often used interchangeably, although there can be real differences in their meanings. For purposes of this discussion, we will use the term "illegal immigrants."

⁷² U.S. Immigration and Naturalization Service, Office of Policy and Planning, *Estimates of the Unauthorized Immigrant Population Residing in the United States: 1990 to 2000* (January 2003), http://uscis.gov/graphics/shared/aboutus/statistics/Ill_Report_1211.pdf, accessed March 21, 2006. The report estimated that Minnesota had 13,000 unauthorized immigrants in 1990.

⁷³ Jeffrey S. Passel, *Estimates of the Size and Characteristics of the Undocumented Population* (Washington, D.C.: Pew Hispanic Center, March 21, 2005), 6.

⁷⁴ Minnesota Department of Administration, Office of Strategic Planning and Results Management, *The Impact of Illegal Immigration on Minnesota: Costs and Population Trends* (St. Paul, December 8, 2005), 1. The report attributed the estimates to the Urban Institute and a personal communication with the Pew study's author.

⁷⁵ Barbara J. Ronningen, *Estimates of Selected Immigrant Populations in Minnesota: 2004* (St. Paul: Minnesota State Demographic Center, June 2004), 3.

A Minnesota Department of Administration report said that illegal immigrants “strain” state resources, but the report did not estimate the amount of state revenues these immigrants generate.

Furthermore, there is simply not much hard evidence on the demographic characteristics of Minnesota’s illegal immigrants. The impact of illegal immigrants on government costs and revenues depends partly on the characteristics of these immigrants, such as their educational background, family size, and earnings in the U.S. One recent study estimated that most illegal immigrants in the nation lack a high school degree, a trait that other researchers have linked to negative impacts on government finances over the long term.⁷⁶ It is plausible that many of Minnesota’s illegal immigrants have limited educational backgrounds and low incomes, but staff in the Minnesota State Demographic Center told us that existing data do not provide a basis for reliably profiling Minnesota’s illegal immigrant population.

There have been some previous studies of illegal immigrants’ economic and fiscal impacts in Minnesota, but these studies have had significant limitations. One of these studies was the Minnesota Department of Administration’s 2005 report, which asserted that illegal immigrants place “a financial strain on state resources.”⁷⁷ Illegal immigrants impose costs on Minnesota taxpayers in some—but not all—of the categories of public services in which legal immigrants impose costs. For example, the children of both legal and illegal immigrants are subject to Minnesota’s compulsory education law and are required to attend school. In contrast, legal immigrants are eligible for unemployment insurance benefits, while illegal immigrants are not. Likewise, illegal immigrants are ineligible for most public health care and public assistance programs, although their U.S.-born children are eligible.⁷⁸ The Department of Administration estimated that illegal immigrants impose annual state costs of \$176 to \$188 million, including \$146 to \$158 million for K-12 public education, \$17 million for public assistance health care, and \$13 million for incarceration.⁷⁹

However, the Department of Administration report did not address the magnitude of state revenues generated by illegal immigrants, thus providing no basis for a judgment of their net fiscal impacts. Illegal immigrants are subject to federal,

⁷⁶ Steven A. Camarota, *The High Cost of Cheap Labor: Illegal Immigration and the Federal Budget* (Washington, D.C.: Center for Immigration Studies, August 2004). This study concluded that illegal immigrants currently impose net fiscal costs on the federal government; it did not estimate long-term impacts or non-federal impacts. The study said that the negative fiscal impacts were due mainly to below-average incomes and tax payments, not heavy use of government services. A previous summary of research stated, similar to the Camarota report, that “the suggestive finding that illegal immigrants are net consumers of public services is more a product of their low incomes than of their immigration status”—see George Vernez and Kevin F. McCarthy, *The Costs of Immigration to Taxpayers*, xii.

⁷⁷ Minnesota Department of Administration, *The Impact of Illegal Immigration on Minnesota*, 5.

⁷⁸ According to Minnesota House of Representatives Research, *Noncitizens and Minnesota Law*, 52-54, illegal immigrants are ineligible for General Assistance, the Minnesota Family Investment Program, Minnesota Supplemental Aid, Food Stamps, Emergency General Assistance, General Assistance Medical Care, MinnesotaCare, and Group Residential Housing. Illegal immigrants may be eligible for Emergency Medical Assistance and prenatal/postpartum services but not other Medical Assistance services.

⁷⁹ Minnesota Department of Administration, *The Impact of Illegal Immigration on Minnesota*, 5. The study’s education costs were computed by multiplying a national estimate of the number of illegal immigrants in Minnesota’s K-12 public school system by Minnesota’s annual education operating cost per pupil. If some schools have sufficient capacity to add students without adding staff, then the cost of adding a student may be less than the average statewide education cost per pupil.

Existing data and research do not permit firm conclusions about the net impact of Minnesota's illegal immigrants.

state, and local taxes. We recognize that it would be difficult to estimate the amount of tax revenues generated by an unknown number of people whose presence in Minnesota violates federal laws.⁸⁰ Still, the Department of Administration's claim that illegal immigrants strain state resources could have led some readers to inaccurately assume that this conclusion was based on a comprehensive analysis of costs and revenues.⁸¹

Questions can also be raised about some earlier efforts to estimate the impact of illegal immigrants on Minnesota's economy. For example, a 2000 study conducted for a Minnesota-based Hispanic research and advocacy organization estimated that illegal immigrants probably accounted for \$3.8 billion of value added to the Minnesota economy each year, which was equivalent to 2.4 percent of Minnesota's gross state product.⁸² The analysis assumed that removal of illegal immigrants from the economy would typically result in business closures, rather than market adjustments such as wage and price increases, and this assumption is debatable. In addition, past research has suggested that wage reductions for existing workers may result from immigration, but this analysis did not incorporate such effects into its estimate of illegal immigration's economic impacts.

Overall, we cannot draw firm conclusions about the net economic or fiscal impact of Minnesota's illegal immigrants on the basis of existing data and research. The lack of good information on the number and characteristics of illegal immigrants significantly limits any effort to estimate their impact. Furthermore, previous studies have not provided a comprehensive accounting of illegal immigrants' benefits and costs.

⁸⁰ The federal government requires employers to report wages and withhold taxes for their employees. Some people avoid compliance with income tax requirements by working in the "cash economy" and not reporting cash income. In other cases, employees use false social security numbers (perhaps to avoid disclosure of their illegal immigrant status), but employers report their wages to federal and state tax agencies and withhold taxes. In addition, the Internal Revenue Service has allowed unauthorized immigrants (and others) to file taxes using an "individual tax identification number" in place of other forms of identification. Minnesota Department of Revenue staff told us they have no way to estimate the immigration or citizenship status of people who file state income taxes.

⁸¹ The report's preface acknowledged that the study did "not consider any of the benefits illegal immigrants provide in areas such as labor or tax revenue."

⁸² James J. Kielkopf, *The Economic Impact of Undocumented Workers in Minnesota* (Minneapolis: Hispanic Advocacy and Community Empowerment Through Research, September 2000). This study estimated "direct" impacts totaling \$1.2 billion, plus "indirect" and "induced" impacts totaling another \$2.6 billion.

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