

The Economics of Immigration

Most immigrants to the United States are motivated to come for economic reasons: To secure stable jobs and a just wage to provide for their families. It is reasonable, in turn, to ask what impact immigrants, including those who are undocumented, have on the economy, public benefits, and native-born workers. The answer is largely positive. Research shows that immigrants – documented and undocumented alike – work hard, pay taxes and help grow the economy.

Productivity and Growth

Immigrants make up a larger share of the U.S. workforce (15 percent) than they do the population (12 percent). Their labor force participation is higher and their unemployment rate is lower than that of native-born workers.¹ Immigrants fueled about 50 percent of workforce growth in the last decade.²

In 2005, the level of entrepreneurial activity – defined as the establishment of a business – was 25 percent higher among immigrants than native-born Americans.³

Taxes and Public Benefits



Immigrants in the Washington, D.C. metro region alone paid nearly \$10 billion in income, payroll, property, sales and other “consumption” taxes at the federal, state and local levels in 1999-2000.⁴

The Social Security Administration estimates that about half of undocumented workers in the United States pay social security taxes, though they will not receive benefits.⁵ They pay, like other workers, through paycheck withholdings.

Many undocumented workers file income tax returns through the use of an Individual Taxpayer Identification Number (ITIN), which the IRS has given to more than 8 million people without regard to immigration status. “A significant but not precisely known number of ITIN holders are illegal resident aliens,” according to the Government Accounting Office.⁶

Undocumented immigrants are barred from receiving many federal benefits, including food stamps, temporary cash assistance (welfare), permanent housing, social security, the earned income tax credit and most forms of Medicaid. State and local governments vary in the range of services they provide to undocumented immigrants, though the government is constitutionally bound to provide emergency medical care and elementary and secondary education to them.

Impact on Workers

Foreign-born workers typically have different skill sets than native-born workers. If immigrants’ skills complement those of native-born workers, then the productivity and wages of those native-born workers rise. If immigrants’ skills substitute those of native-born workers, then the wages of those native-born workers may fall. Research shows that

both dynamics are in effect in the U.S. economy:

- Immigrants slightly depress the wages of native-born workers without a high school degree – about 10 percent of the native-born labor force.⁷
- Immigrants have a positive impact on the wages of 90 percent of the native-born workforce. Native workers see total annual income gains of between \$30 billion and \$80 billion from immigration.⁸



¹ Council of Economic Advisers, “2007 Economic Report of the President,” 189, 195.

² Council of Economic Advisers, “Immigration’s Economic Impact,” (2007), 1.

³ The Ewing Marion Kauffman Foundation, “Kauffman Index of Entrepreneurial Activity: 1996-2005,” 4.

⁴ The Community Foundation for the National Capital Region, “Civic Contributions: Taxes Paid by Immigrants in the Washington, DC, Metropolitan Area,” (2006), 17.

⁵ Social Security Advisory Board, “Issue Brief #1: The Impact of Immigration on Social Security and the National Economy,” (2005), 3.

⁶ Michael Brostek, U.S. General Accounting Office, to the Subcommittee on Oversight and Social Security, Committee on Ways and Means, House of Representatives, March 10, 2004.

⁷ CEA, “2007 Economic Report of the President,” 202.

⁸ CEA, “Immigration’s Economic Impact,” 4.