

## More immigrants can help reduce deficits and the debt

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The U.S. federal budget is in dire shape. The 2022 budget deficit was \$1.4 trillion, and publicly held federal debt is about \$24.6 trillion — roughly equal to 94 percent of GDP. And that doesn't include the other approximately \$6.9 trillion in debt credited to Social Security, Medicare, and other government programs.

Congress must eventually address this imbalance by increasing revenue, reducing spending, or both. Instead of increasing taxes, the government should increase revenue by expanding legal immigration.

The Congressional Budget Office rosily projects that publicly held federal debt will rise to 118 percent of GDP in 2033 — and that assumes no wars, pandemics, or other emergencies in the intervening years that would prompt the government to spend many trillions of dollars more. But that's just for the next 10 years. Economists at Penn Wharton estimate that federal government debt will rise to about 225 percent of GDP in the next 30 years. And that doesn't include local and state government obligations.

Increasing legal immigration would help plug that hole without ruinously increasing taxes because immigrants contribute more in tax revenue than they consume in government benefits.

The Cato Institute recently released a white paper detailing the fiscal impact of immigrants in the United States. Adapted from a fiscal model created by the National Academy of Sciences, we found that all immigrants individually will, in present value terms, pay about \$267,000 more in taxes at the state, local, and federal levels than they will consume in benefits over the next 30 years. If the immigrant population were doubled with no change in average age or education, that would be about \$11.9 trillion in extra net tax revenue over the next 30 years.

More importantly, that's extra revenue without higher taxes.

The taxes paid and benefits received by immigrants are highly dependent upon the immigrant's age of arrival in the United States and their ultimate level of education. For instance, a high school dropout immigrant who arrives at age 25 will pay about \$216,000 more in taxes than he'll receive in benefits over the next 30 years. However, an immigrant arriving at the same age who ultimately earns a post-graduate degree will pay almost \$1.3 million more in taxes than he'll receive in benefits.

Low-skilled immigrants arriving between the ages of 20-24 are in the fiscal sweet spot, where the gap between what they pay in taxes and receive in benefits is the highest. The fiscal sweet spot is age 25-30 for high-skilled immigrants with a bachelor's degree or higher. In those age ranges, immigrants arrive without consuming government benefits or public schooling. As a result, they can begin working and paying taxes immediately, then spend several decades working before retiring and consuming Social Security and Medicare benefits.

The fiscal cost of the descendants of immigrants born in the United States complicates the matter, but including them still produces a positive fiscal impact over the next 30 years. Including the descendants of a high school dropout immigrant who enters at age 25 still results in \$57,000 more in taxes paid than benefits consumed. For an immigrant who ultimately earns a graduate degree, the positive contribution drops to about \$1.1 million.

Age, increasing education, and lower consumption of government benefits are the three main reasons why immigrants pay more in taxes than they receive in benefits. More than 60 percent of immigrants are in the prime working ages of 25-54, when welfare use is lowest and their tax payments from employment are highest. By comparison, just 38 percent of native-born Americans are in their prime working age.

Immigrants are also more educated than ever, earning higher wages and paying higher taxes as a result. For instance, immigrants and native-born Americans under age 27 have almost identical levels of education. Yet, in 2013, immigrants showed less education than natives when they were 18.

Lastly, immigrants consume fewer government benefits than the second and third-plus generations of native-born Americans. Immigrants, on average, consume fewer benefits than third-plus generation Americans at every age except between the ages of 5 and 17.

The difference is most dramatic for old age entitlement programs, where immigrants aged 65 and older consume an average of over \$110,000 less than third-plus generation Americans from age 65 to 80 and about \$76,000 less than the second-generation Americans. Government restrictions on welfare for new immigrants can explain some of this difference.

Increasing legal immigration at every skill level, especially younger immigrants who are highly educated, will help the government balance its books. Boosting legal immigration will not entirely solve America's fiscal problems, but doing so will bump up tax revenues without higher tax rates. Congress will have to moderate spending and reform near-insolvent entitlement

programs no matter what happens to legal immigration, but liberalizing immigration will increase revenue without increasing taxes. It's time for immigration to be part of the fiscal debate.

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