Increasing legal immigration in the US leads to long term fiscal benefits

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In a recent paper by the Penn Wharton Budget Model, authors Efraim

Berkovich, director of computational dynamics; Daniela Costa, economist; and Austin Herrick, senior analyst, account for the differences between immigrants and nonimmigrants to investigate the macroeconomic effects of immigration to the U.S.

The research, titled "Immigration and the Macroeconomy," models policies that change the size and composition of the immigrant population and analyze implications for government spending and tax revenues.

"The model we use at Penn Wharton [Budget Model] incorporates a very rich microsimulation of demographics along with a detailed macro-economic model," Berkovich says. "This approach is especially fruitful for researching policy areas such as immigration."

The researchers investigate the impact of immigration through two main channels—the number of newly arriving authorized immigrants, and changes to the legal status of existing immigrants.

"In the first case, our modeled scenarios increased (or decreased) legal immigrant inflows for a five-year period in the 2020s, and in the second case, we legalized different portions of the unauthorized population," Herrick says. "In both cases, we projected changes to the population dynamics resulting from these policies—birth rates, marriage rates, size of the workforce, and other characteristics of the population."

The main findings of the study are that temporary increases in legal immigration rates lead to long-term fiscal benefits.

"The main channel through which larger inflows of legal immigrants bring about fiscal benefits in the long run is by increasing the working age population, which contributes to the production of the country, raising tax revenues," Costa says "As the newly admitted immigrants

retire and collect Social Security benefits, it leads to an increase in federal expenditures, but, in the long-run, there is still a net revenue increase when children of immigrants decrease the old-age dependency ratio of the economy when they grow up."

Increased legal immigration policies produce long lasting, multi-generational effects, as the children of new immigrants enter the workforce. According to the study, a six-year increase in legal immigration by 25% is predicted to lead to a 0.08% increase in per capita gross domestic product [GDP] and a 0.41% decrease in total government debt in 2032. By 2052, the policy increases per capita GDP by 0.30% while government debt is 1.34% lower than in the baseline.

The research paper found that policies which legalize unauthorized immigrants imply a tradeoff between higher wages for newly legalized workers and increased government debt through additional spending on social programs for those same immigrants.

"On the one hand, labor income for newly legalized workers increases due to access to formal labor markets," says Costa.

Costa also explains that on the other hand, newly legalized workers are less educated, hence, earn less than the average worker and, when granted legal status, are more likely to remain in the country and collect Social Security benefits to which they are entitled.

"These two effects dominate and, in the long run, increase the government's debt burden," she says.

The researchers hope the findings in the paper trigger a conversation on the insights, and that their framework will help policymakers estimate the potential impacts of immigration scenarios.

More information: Immigration and the Macroeconomy: budgetmodel.wharton.upenn.edu/ … ues/2022/1/5/w2022-1

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