

July 1995

ILLEGAL ALIENS

National Net Cost Estimates Vary Widely





United States
General Accounting Office
Washington, D.C. 20548

**Health, Education, and
Human Services Division**

B-252730

July 25, 1995

The Honorable Alfonse M. D'Amato
United States Senate

The Honorable Lamar S. Smith
Chairman, Subcommittee on
Immigration and Claims
Committee on the Judiciary
House of Representatives

The Honorable Elton Gallegly
House of Representatives

The Honorable Bill McCollum
House of Representatives

The Honorable Dana Rohrabacher
House of Representatives

In recent years, growing public concern about illegal aliens in the United States has focused on their use of public benefits and their overall costs to society.¹ Some 3-1/2 to 4 million illegal aliens resided in the United States in 1994, according to government estimates. States' concerns about the strain on their budgets from providing public benefits and services to illegal aliens have prompted six states to file suit against the federal government for reimbursement of some of these costs.² In one state, California, voters recently passed a measure that would deny state-funded public benefits to illegal aliens, including education, nonemergency health services, and other social services.³

Information on the effects of illegal aliens residing in the country can be useful to lawmakers in developing appropriate policy responses to address the problems created by illegal immigration. For example, information on

¹An illegal alien is a person who is in the United States in violation of U.S. immigration laws. Such a person may have entered (1) illegally; that is without the Immigration and Naturalization Service (INS) inspection (undocumented), or by using fraudulent documentation or (2) legally, under a nonimmigrant visa or other temporary condition but subsequently violated the terms of the visa or other terms of entry.

²Florida, California, Arizona, Texas, New Jersey, and New York.

³California voters approved Proposition 187 on November 8, 1994. Many of the restrictions on eligibility for public services have not taken effect because lawsuits blocked implementation of the measure.

the extent, if any, to which illegal aliens impose a fiscal burden on U.S. taxpayers provides one indication of the magnitude of the effects of illegal aliens. The current debate about how to address the problems of illegal immigration has generated a renewed interest in the findings of studies that have attempted to estimate the public fiscal impact of illegal aliens.

You asked us to examine existing estimates of the overall costs, to all levels of government, of providing benefits and services to illegal aliens. Because illegal aliens not only receive public benefits but also pay taxes, we examined estimates of the public net costs of illegal aliens: the government costs they generate, minus the revenues they contribute to government. We previously reported to you on estimates of selected costs for illegal aliens incurred by the states in which most of this population resides.⁴ This report (1) assesses existing estimates of the national net cost of illegal aliens to all levels of government, (2) examines the items that account for much of the variation in these estimates, and (3) identifies areas in which the estimates could be improved.

In developing this information, we identified 13 studies of the net costs of illegal aliens issued between 1984 and 1994; only 3 of these studies estimated the national net cost, and we examined them in detail. They are (1) Donald Huddle's⁵ initial study of 1992 net costs, The Costs of Immigration; (2) the Urban Institute's critique of that study, How Much Do Immigrants Really Cost? A Reappraisal of Huddle's "The Cost of Immigrants";⁶ and (3) Huddle's updated study, The Net National Costs of Immigration in 1993.⁷ In addition, we consulted various experts in the field of immigration about issues that arose in assessing estimates of the fiscal impact of illegal aliens (see app. IV for a list of persons consulted).

Results in Brief

All three national studies concluded that illegal aliens in the United States generate more in costs than revenues to federal, state, and local

⁴Benefits for Illegal Aliens: Some Program Costs Increasing, But Total Costs Unknown (GAO/T-HRD-93-33, Sept. 29, 1993). This testimony included estimates of costs for illegal aliens in California, New York, Texas, Florida, and Illinois.

⁵Donald Huddle is a professor emeritus of economics at Rice University.

⁶The methodology of the revenue estimates in this study is set out in greater detail in a study by Jeffrey Passel, Immigrants and Taxes: A Reappraisal of Huddle's "The Cost of Immigrants" (Washington, D.C.: The Urban Institute, 1994).

⁷Huddle's updated study was issued with an accompanying paper that discusses some of the major areas of difference in the national net cost estimates. See A Critique of the Urban Institute's Claims of Cost Free Immigration: Huddle Findings Confirmed (Washington, D.C.: Carrying Capacity Network, 1994).

governments combined. However, their estimates of the national net cost varied considerably, ranging from \$2 billion to \$19 billion. Because little data are available on illegal aliens' use of public services and tax payments, the various indirect approaches used to estimate costs and revenues were often based on assumptions whose reasonableness is unknown. Moreover, the studies varied considerably in the range of costs and revenues they included and their treatment of certain items, making them difficult to compare. As a result, a great deal of uncertainty remains about the actual national fiscal impact of illegal aliens.

We did find that a relatively small number of costs and revenues account for much of the variation in the estimates of the national net cost of illegal aliens. For example, one study included costs of \$3.9 billion for certain benefits, such as education, provided to U.S. citizen children of illegal aliens and the other two studies did not include these costs. In addition, the two studies that included estimates of Social Security costs—\$3.3 billion versus \$0—differed in their approaches to this item and appear to have estimated different costs. In these and other instances, the estimates were difficult to assess because the studies did not always clearly explain the criteria used to determine which items were appropriate to include.

Better data on the illegal alien population and clearer explanations of which costs and revenues are appropriate to include would help improve the usefulness of estimates of the national net cost. Recognizing the difficulties inherent in collecting better data on a population with an incentive to keep its status hidden from government officials, any future studies would benefit from focusing on some of the key characteristics of the illegal alien population. These include the population's size, geographic distribution, age distribution, income distribution, labor force participation rate, tax compliance rate, and extent of school participation. Clearer explanations of which costs and revenues are appropriate to include also would be helpful. The appropriateness of including any particular item may depend on the policy questions addressed by a study. If studies were more explicit about the questions they address, their estimates would be easier to compare and more useful to lawmakers.

Background

Illegal immigration is an important issue, especially in California, New York, Texas, Florida, Illinois, Arizona, and New Jersey—the states estimated to account for over three-fourths of the illegal alien population. Illegal aliens are a concern not only because they are breaking

immigration laws but for various other reasons. For example, state and local governments are especially concerned about the effect on their budgets of providing benefits and services to illegal aliens. In addition, there are concerns about whether the presence of illegal alien workers has negative effects on the employment of U.S. workers.

Size of the Population

Public concern about the number of illegal aliens residing in the United States led to the passage of major immigration legislation in the 1980s. In an effort to reduce the size of the nation's illegal alien population, estimated at 3 to 5 million in 1986, the Congress enacted the Immigration Reform and Control Act of 1986 (IRCA). IRCA attempted to deter the inflow of illegal aliens by prohibiting employers from hiring anyone not authorized to work. IRCA also provided that under certain circumstances, an illegal alien's status could be adjusted to lawful permanent resident.⁸ Almost 3 million illegal aliens acquired lawful permanent residence as a result of IRCA.

Despite a brief drop in the estimated number of illegal entries to the United States after IRCA was enacted, the inflow of illegal aliens has subsequently increased, so that the size of the illegal alien population is now estimated to have increased once more to pre-IRCA levels. INS estimated that there were 3.4 million illegal aliens residing in the country in October 1992. Updating this estimate would place the illegal alien population at about 4 million in 1994.⁹ The Bureau of the Census estimated that the size of the illegal alien population was between 3.5 million and 4 million in April 1994.¹⁰

Eligibility for Federal Benefits

Illegal aliens are not eligible for most federal benefit programs, including Supplemental Security Income, Aid to Families With Dependent Children (AFDC), Food Stamps, unemployment compensation, financial assistance

⁸Aliens who either entered the United States before January 1, 1982, and had been living illegally in the country continuously since that time or who worked in agriculture were eligible to seek adjustment of their status.

⁹Robert Warren, "Estimates of the Unauthorized Immigrant Population Residing in the United States, by Country of Origin and State of Residence: October 1992," unpublished report, U.S. Immigration and Naturalization Service (Washington, D.C.: 1994). We updated the estimate to 1994 by using the report's estimate of a 300,000 annual increase in the size of the national illegal alien population.

¹⁰Edward W. Fernandez and J. Gregory Robinson, "Illustrative Ranges of the Distribution of Undocumented Immigrants by State," U.S. Bureau of the Census, Population Division, technical working paper no. 8 (Washington, D.C.: U.S. Department of Commerce, 1994).

for higher education, and the Job Training Partnership Act (JTPA).¹¹ However, they may participate in certain benefit programs that do not require legal immigration status as a condition of eligibility, such as Head Start, the Special Supplemental Food Program for Women, Infants, and Children (WIC), and the school lunch program.¹² In addition, they are eligible for emergency medical services, including childbirth services, under Medicaid if they meet the program's conditions of eligibility. Illegal aliens may apply for AFDC and food stamps on behalf of their U.S. citizen children. Although it is the child and not the parent in such cases who qualifies for the programs, benefits help support the child's family.

Illegal aliens may not work in the United States or legally obtain Social Security numbers for work purposes. However, many illegal aliens do work and have Social Security taxes withheld from their wages based on falsely obtained numbers.¹³ Illegal aliens are not explicitly barred from receiving Social Security benefits; nonetheless, some illegal aliens may not be able to collect benefits because an individual generally must have obtained a valid Social Security number to receive credit for work performed.

Types of Revenues Generated

Illegal aliens generate revenues as well as costs; these revenues offset some of the costs that governments incur. Research studies indicate that many illegal aliens pay taxes, including federal and state income taxes; Social Security tax; and sales, gasoline, and property taxes. However, researchers disagree on the amount of revenues illegal aliens generate and the extent to which these revenues offset government costs for benefits and services.

State Efforts to Estimate Fiscal Impact of Illegal Aliens

Over the past few years, the states with the largest illegal alien populations have developed estimates of the costs they incur in providing benefits and services to illegal aliens. These estimates vary considerably in the range of

¹¹While illegal aliens are ineligible by law for housing assistance, the Department of Housing and Urban Development (HUD) allowed them to receive assistance until final regulations implementing eligibility restrictions were issued. HUD issued that final rule on eligibility of aliens for housing assistance on March 20, 1995 (60 Fed. Reg. 14816, 1995); the rule became effective June 19, 1995.

¹²Certain welfare reform proposals being considered by the Congress would further restrict the eligibility of illegal aliens for federal benefits. For example, the Personal Responsibility Act of 1995 (H.R. 4) would make illegal aliens ineligible for federal means-tested public benefit programs, except for certain emergency assistance.

¹³This can occur in various ways. For example, an illegal alien might provide an employer with (1) a Social Security number that had been assigned to another person, (2) a counterfeit Social Security card, or (3) a genuine Social Security card that was obtained by furnishing fraudulent documents to the Social Security Administration.

costs included and methodologies used. Two states, California and Texas, also have estimated the public revenues that illegal aliens generate.

In a recent report, we reviewed California's estimates of three costs for illegal aliens—elementary and secondary education, Medicaid, and adult incarceration—and various revenues from this population.¹⁴ Although we adjusted the cost estimates based on our assessment of the state's assumptions, we cited several data limitations that prevented us from developing precise estimates. The even more extensive data limitations on the revenue side precluded us from making any assessment of the revenue estimates.

Most Studies Conclude Illegal Aliens Generate More in Costs Than in Revenues

The literature on the public fiscal impact of illegal aliens reflects considerable agreement among researchers that illegal aliens are a net cost, though the magnitude of the cost is a subject of continued debate. We identified 13 studies issued between 1984 and 1994 that developed estimates of the net costs of illegal aliens. Many of the studies focused on the illegal alien population in specific states, such as California or Texas, or specific areas, such as San Diego County or Los Angeles County. In addition, the range of costs and revenues included in the studies varied depending on the level of government examined: local, state, federal, or some combination of these. All but one study concluded that illegal aliens generated more in public costs than they contributed in revenues to government. (See app. I for a list of the studies.) Only 3 of the 13 studies estimated the fiscal impact of all illegal aliens in the United States on all levels of government.

National Net Cost of Illegal Aliens Uncertain

The three studies that have estimated the national net cost of illegal aliens have generated considerable media attention and public discussion. Each concluded that illegal aliens generate more in costs than revenues at the national level, but their estimates of the magnitude of the net cost varied considerably. The studies faced the difficult task of developing estimates of the public fiscal impact of a population on which little data are available. They generally relied on indirect approaches; as a result, the reasonableness of many of their assumptions are unknown. In addition, the studies differed considerably in the range of costs and revenues they included and their treatment of certain items, which makes them difficult

¹⁴Illegal Aliens: Assessing Estimates of Financial Burden on California (GAO/HEHS-95-22, Nov. 28, 1994).

to compare. For these reasons, a great deal of uncertainty remains about the actual national net cost of illegal aliens.

Studies' Estimates of Net Costs Vary Considerably

Donald Huddle estimated that the national net cost of illegal aliens to federal, state, and local governments was \$11.9 billion in 1992.¹⁵ This estimate was followed by an Urban Institute review of Huddle's work, which adjusted some of Huddle's cost and revenue estimates and estimated a much lower net cost for 1992—\$1.9 billion.¹⁶ Responding to the Urban Institute's criticisms, Huddle subsequently produced an updated estimate for 1993 that was higher than his initial estimate—\$19.3 billion.¹⁷ (See app. II for a list of the costs and revenues included in each of the estimates.)

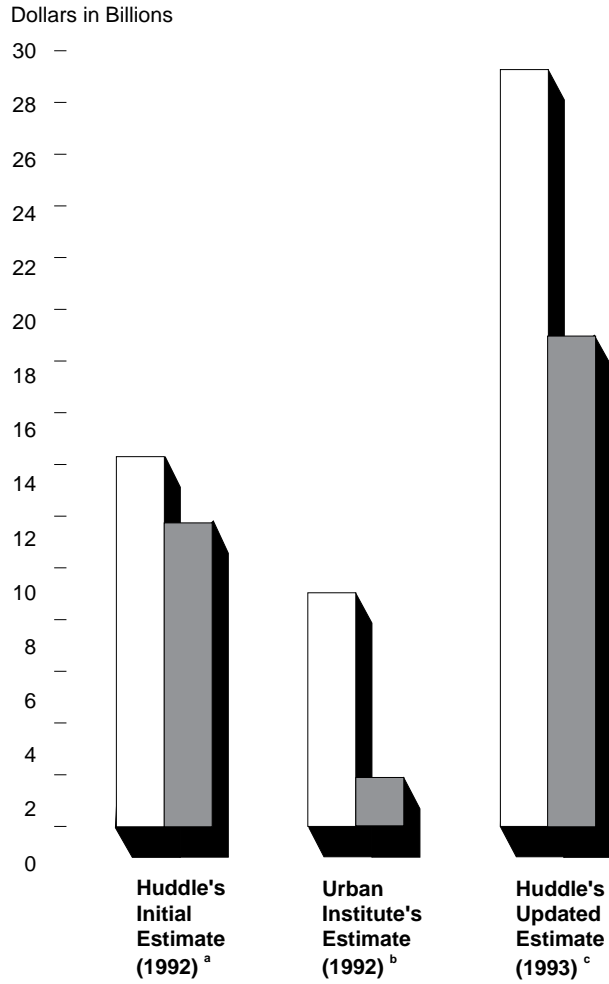
The net cost estimates in each of the national studies are derived from three major components: (1) the direct costs of providing public benefits and services to illegal aliens, (2) displacement costs—the costs of providing various types of public assistance to U.S. citizens displaced from their jobs by illegal aliens, and (3) public revenues attributable to illegal aliens. A comparison of Huddle's initial study with the Urban Institute's study indicates that the major differences were in their estimates of displacement costs and revenues. Their estimates of direct program costs were relatively similar, as shown in figure 1.

¹⁵This study and Huddle's updated study were commissioned by the Carrying Capacity Network, a nonpartisan, nonprofit, national organization whose stated mission is to increase understanding of the interrelated nature of population growth, environmental degradation, resource conservation, and quality-of-life issues in the United States.

¹⁶The Urban Institute is a nonprofit, nonpartisan, policy research organization. The two lead analysts in this research were Jeffrey S. Passel and Rebecca L. Clark, director and senior research associate, respectively, in the Institute's Program for Research on Immigration Policy.

¹⁷Huddle recently updated his national net cost estimate to 1994. The updated estimate relies on the same methodologies as the estimate for 1993. However, the 1994 estimate uses higher per capita costs for various public assistance programs, a higher estimate of the income of illegal aliens, and an updated estimate of the size of the illegal alien population. Huddle concluded that the national net cost of illegal aliens in 1994 was between \$16 billion and \$21.6 billion. The lower figure is based on an estimated illegal alien population of 4 million; the higher figure on a population of 5.4 million. See Donald L. Huddle, The Net National Costs of Immigration into the United States: Illegal Immigration Assessed (Washington, D.C.: Carrying Capacity Network, 1995).

Figure 1: Estimated Net Costs to Federal, State, and Local Governments for Illegal Aliens in the United States



Total Costs
 Net Costs

Components of estimate	Huddle's initial estimate (1992) ^a	Urban Institute's estimate (1992) ^b	Huddle's updated estimate (1993) ^c
Direct program costs	\$10.096	\$8.861	\$25.008
Displacement costs	4.291	0	4.290
Total costs	\$14.387	\$8.861	\$29.298
Less revenues	2.486	6.973	9.961
Net costs	\$11.901	\$1.888	\$19.337

^aDonald Huddle, The Costs of Immigration (Washington, D.C.: 1993), exhibits 5, 6, and 12.

^bJeffrey S. Passel and Rebecca L. Clark, How Much Do Immigrants Really Cost? A Reappraisal of Huddle's "The Cost of Immigrants" (Washington, D.C.: 1994), pp. 1-8, supplemented by data from Jeffrey Passel providing a breakdown of the cost estimates for individual items; and Jeffrey S. Passel, Immigrants and Taxes: A Reappraisal of Huddle's "The Cost of Immigrants" (Washington, D.C.: 1994), table 7c.

^cDonald Huddle, The Net National Costs of Immigration in 1993 (Washington, D.C.: 1994), exhibits 5, 6, and 12.

In their study, the Urban Institute researchers did not develop a completely independent estimate but instead adjusted some of the cost and revenue estimates in Huddle's initial study to obtain what they believed to be a more reasonable estimate. The Urban Institute study also added certain revenues that were not included in Huddle's initial study, such as payroll taxes (Social Security and unemployment compensation) and federal gasoline tax. In developing their own estimate, Urban Institute researchers used some of Huddle's assumptions. In particular, the Urban Institute study used Huddle's estimate of the size of the illegal alien population—4.8 million illegal aliens—for purposes of comparability, though the study maintained that this estimate was too high.¹⁸

Huddle's update of his earlier study differs substantially from the Urban Institute study in all three components of the net cost estimates, with the largest difference occurring between the estimates of direct program costs (see fig. 1). The reason for this difference is primarily because Huddle's updated study includes over \$10 billion for direct cost items that were not included in either his initial study or the Urban Institute study.

Studies' Estimates Based on Limited Data on Illegal Alien Population

National data on illegal aliens' use of public services and level of tax payments generally are not available. Various national databases that contain extensive data on the resident population's use of public services and household characteristics, for example, do not have data on the immigration status of respondents who are not U.S. citizens.¹⁹ Questions about immigration status are not included on Census surveys because they might provoke untruthful responses and thereby affect the quality of the survey data, according to a Census official.

¹⁸In other studies, the Urban Institute researchers have used significantly lower estimates of the size of the illegal alien population. For example, in Rebecca L. Clark and others, Fiscal Impacts of Undocumented Aliens: Selected Estimates for Seven States, the researchers used INS' national population estimate of 3.4 million illegal aliens as of 1992.

¹⁹These include Census Bureau databases such as the decennial census, the Current Population Survey, and the Survey of Income and Program Participation.

Because of such data limitations, the national studies relied on indirect approaches to estimate the costs and revenues attributable to illegal aliens. In using these approaches, the studies made assumptions whose reasonableness is often unknown. To estimate direct program costs, for example, the studies multiplied their estimates of the average number of illegal aliens who received a benefit or service times the average annual program cost per illegal alien. However, data generally are not available to assess whether the assumptions used in estimating illegal aliens' reciprocity rates²⁰ and average costs were reasonable.

For example, for some programs, one or more of the studies assumed that illegal aliens had the same reciprocity rate and average cost as the overall population served by the program. Huddle's updated study made this assumption in estimating costs for Head Start and adult education. For other programs, the studies adjusted the national reciprocity rate or average cost upward or downward to reflect a presumed difference in the use of the program by illegal aliens. For example, in estimating the cost of housing assistance, Huddle's initial and updated studies assumed that the reciprocity rate and average cost were higher for illegal aliens than for the overall population served by this program. The Urban Institute's study assumed that the reciprocity rate was higher but that the average cost was the same.

For still other programs, the studies estimated the public service use of illegal aliens by using data on populations that included groups in addition to illegal aliens. For example, in their estimates of the cost of primary and secondary education, the studies used data on the school enrollment rates of populations that included foreign-born children who were legal residents. The studies' estimates of the enrollment rate of school-age illegal aliens ranged from 70 to 86 percent.²¹

To estimate revenues attributable to illegal aliens, Huddle's initial study and the Urban Institute's study started with a preexisting estimate of revenues collected from illegal aliens in Los Angeles County for various

²⁰Reciprocity rate refers to the percentage of a population that receives benefits from a particular program.

²¹Subsequent to its national net cost study, the Urban Institute developed more detailed estimates of the costs of providing certain education and public welfare benefits to illegal aliens. The Urban Institute also expanded its critical analysis of the estimates for these benefits in Huddle's initial study. See Rebecca L. Clark, The Costs of Providing Public Assistance and Education to Immigrants (Washington, D.C.: The Urban Institute, 1994).

federal, state, and local taxes.²² The studies calculated the per capita payments by illegal aliens in Los Angeles County for each of these taxes. The studies then used different methodologies to adjust these per capita tax estimates to apply them to the national illegal alien population.²³

In contrast, Huddle's updated study used a different approach to estimate revenues. The study developed an estimate of the income distribution of the national illegal alien population from data on the foreign-born population and on illegal aliens who were legalized under IRCA. Based on this income distribution, the study used data on the tax payments or tax rates associated with different levels of income for the general population to estimate revenues from illegal aliens.

Studies Difficult to Compare

The national net cost studies vary considerably in the range of costs and revenues they included and their treatment of certain items, making the studies difficult to compare. The variation in the studies reflects an absence of clear standards for determining the items that are appropriate to include in such estimates. A consensus on standards has not yet emerged because the three national studies represent the initial efforts of researchers to develop estimates of the total public fiscal impact of the illegal alien population.

Because the studies attempted to develop comprehensive estimates of the fiscal impact of a population, it is important to determine whether the items they included are appropriate. However, this is difficult to determine because the studies did not always clearly explain the rationale for including items that were excluded by other studies or treating items differently from the way they were treated by other studies. As a result, it is difficult to ascertain whether the large variations in the studies' estimates for such items stem from their addressing different policy questions or from differing views about how to respond to the same question.

Why National Estimates Vary

A relatively small number of costs and revenues account for much of the variation in the estimates of the national net cost of illegal aliens. Some of these cost and revenue items were included in one study but not the

²²The estimates of tax payments by illegal aliens were developed in a study by the Los Angeles County Internal Services Department titled *Impact of Undocumented Persons and Other Immigrants on Costs, Revenues and Services in Los Angeles County*, prepared for the Los Angeles County Board of Supervisors (Los Angeles: 1992).

²³For example, the Urban Institute study maintained that Huddle's initial study inappropriately used data on geographic differences in tax payments as a proxy for differences in tax rates.

others. In the case of other items, the studies differed considerably in the approaches or assumptions they used to develop their estimates.

Our review focuses on differences between the Urban Institute's study and Huddle's updated study. Four areas account for about 88 percent of the difference between the studies' estimates of total costs: (1) costs for citizen children of illegal aliens, (2) costs for the portion of some services provided to the general public that are used by illegal aliens, (3) Social Security costs, and (4) costs for workers displaced from jobs by illegal aliens. On the revenue side, about 95 percent of the difference in the studies' estimates is attributable to differences in their estimates of local revenues (see table 1).²⁴

²⁴Huddle's updated study used a slightly higher estimate of the size of the illegal alien population than his initial study and the Urban Institute's study—5.1 million versus 4.8 million. This factor, in addition to price inflation from 1992 (the year of the Urban Institute's estimate) to 1993 (the year of Huddle's updated estimate), accounts for about \$1.0 billion of the \$17.5 billion difference between the net cost estimates, based on our calculations.

Table 1: Major Areas of Difference Between Urban Institute's Estimate and Huddle's Updated Estimate of National Net Costs

Dollars in billions	
Areas of difference	Amount of difference (Huddle's updated estimate ^a minus Urban Institute's estimate ^b)
Costs	
Citizen children	\$4.58
General public services ^c	5.77
Social Security	3.27
Displacement	4.29
Other ^d	2.53
Total difference in costs	20.44
Revenues	
Local	2.85
Federal and state	0.14
Total difference in revenues	2.99
Total difference in net costs	17.45

^aDonald Huddle, *The Net National Costs of Immigration in 1993*, (Washington, D.C.: 1994), exhibits 5, 6, and 12.

^bJeffrey S. Passel and Rebecca L. Clark, *How Much Do Immigrants Really Cost? A Reappraisal of Huddle's "The Cost of Immigrants"* (Washington, D.C.: 1994), pp. 1-8, supplemented by data from Jeffrey Passel providing a breakdown of the cost estimates for individual items; and Jeffrey S. Passel, *Immigrants and Taxes: A Reappraisal of Huddle's "The Cost of Immigrants"* (Washington, D.C.: 1994), table 7c.

^cThese consist of county and city costs and state and federal highway costs.

^dThese include items that are in Huddle's updated estimate but not in the Urban Institute's estimate. For example, Huddle's updated estimate includes three federal programs for which illegal aliens are ineligible: unemployment compensation, federal student aid, and job training under JTPA. If illegal aliens receive these benefits, they likely do so through fraudulent means. However, data generally are not available to quantify the extent of fraud by illegal aliens in these programs.

Costs for Citizen Children of Illegal Aliens

Huddle's initial study and the Urban Institute's study included estimates of costs for U.S. citizen children of illegal aliens for only one program—AFDC.²⁵ These costs represent cash payments received by illegal aliens on behalf of their citizen children. However, Huddle's updated study includes estimates of citizen children costs for additional programs: primary and secondary education; school lunch; Food Stamps; and English as a Second Language, English for Speakers of Other Languages, and

²⁵Huddle's initial study estimated \$820 million in AFDC costs; the Urban Institute's study estimated \$202 million. In our 1993 testimony, we estimated that AFDC costs for fiscal year 1992 were \$479 million, based on administrative data from the Department of Health and Human Services.

bilingual education. Huddle's estimate of these additional items totals \$3.9 billion.²⁶ In all these programs except Food Stamps, the benefits or services are provided directly to citizen children.

The appropriateness of including these additional citizen children costs depends on the policy question under consideration. For example, if the question concerns the overall public fiscal impact associated with illegal immigration, then including these costs would be appropriate because they are a consequence of the failure to prevent aliens from illegally entering and residing in the United States. In addition, it would also be appropriate to include costs and revenues attributable to adult citizen children of illegal aliens (children 18 years old and older).²⁷ Alternatively, if the question concerns the cost of benefits or services provided only to persons residing unlawfully in the country, then it would not be appropriate to include these costs. None of the three national studies, however, clearly specifies the question it addressed.

Costs for General Public Services

Huddle's initial study and the Urban Institute's study included estimates of costs for the portion of some county government services provided to the general public that are used by illegal aliens, such as public safety, fire protection, recreation, roads, and flood control. Huddle's updated study includes over \$5.3 billion in additional costs for miscellaneous public services not included in his initial study or the Urban Institute's study, including federal and state highway costs and costs for a range of city services, such as police, fire, sewerage, libraries, parks and recreation, financial administration, and interest on debt.²⁸

The studies' inclusion of costs for services to the general public raises two issues: the specific services that should be included and the appropriate methodology for estimating the costs of the services attributable to illegal aliens. With regard to the first issue, the national studies focused on local services provided to the general public; the only such state or federal service that any of them included was highway services. However, because there are other state and federal services provided to the general public that illegal aliens may use or benefit from, it is not clear that the studies'

²⁶This cost estimate is difficult to assess because Huddle's updated study does not explain the methodology used to estimate the number of citizen children of illegal aliens.

²⁷Huddle's updated study does not include such costs or revenues.

²⁸Huddle's updated study double-counts certain local costs, such as those for education and public welfare. The study includes these costs both in the estimates of miscellaneous county and city costs, and in the estimates for specific program items, such as elementary and secondary education, and AFDC.

estimates included all the appropriate items.²⁹ None of the studies clearly addressed this issue.

A second issue involves the methodology used to estimate the costs of services provided to the general public. Huddle's updated study calculates the costs of the additional miscellaneous public services on an average cost basis. However, this may yield questionable estimates because the additional cost that governments incur for these services due to the presence of each illegal alien could be substantially lower or higher than the average cost per person of providing the services. Using marginal cost—the cost of providing a service to one additional user—would better reflect the additional costs due to the presence of illegal aliens. For example, in areas where illegal aliens constitute a small percentage of the population, the marginal cost of providing them fire protection could be lower than the average cost. On the other hand, if the number of illegal aliens in an area necessitates the construction of new fire stations, the marginal cost of fire protection for them could be higher than the average cost. While using marginal costs would yield better estimates, the data needed to estimate these costs are difficult to obtain.

Social Security Costs

Social Security (the Old Age, Survivors, and Disability Insurance program) has both a revenue side—payroll contributions from workers and employers—and a cost side—benefits paid out. Huddle's initial study did not include either Social Security revenues or costs. Huddle's updated study, in response to the Urban Institute's study, included both. On the revenue side, the researchers' estimates are fairly close: Huddle estimates \$2.4 billion in Social Security revenues, compared with the Urban Institute's estimate of \$2.7 billion.³⁰ However, on the cost side, the researchers draw sharply different conclusions: Huddle estimates that illegal aliens generated \$3.3 billion in Social Security costs; the Urban Institute estimates that no Social Security costs were generated by illegal aliens.

This difference reflects a disagreement about the conceptual approach to measuring Social Security costs. The Urban Institute study views the Social Security costs for illegal aliens in a given year as the amount of benefits paid to this population in that year. The rationale for this view is

²⁹For example, state governments provide various environmental, public safety, health, and judicial services; they also pay interest on debt incurred to finance the broad range of services they provide.

³⁰The estimate in Huddle's updated study contains an arithmetical error in the calculation of Social Security revenue from the highest income group. Correcting this error would raise the estimate of Social Security revenues to \$2.7 billion, the same as the Urban Institute's estimate.

that the federal government treats Social Security costs and revenues on a current accounts basis: in calculating the annual federal budget deficit (or surplus), Social Security taxes are treated as revenues and Social Security benefits as expenses. However, the Social Security Administration does not have data on the amount of Social Security benefits paid to illegal aliens; as a result, it is unclear whether the Urban Institute's assumption that this amount was zero is reasonable.

In contrast, Huddle's updated study views Social Security costs in terms of the "present value of future benefits" that illegal aliens will collect. The study's cost estimate for 1993 represents the present value of the portion of future Social Security benefits that illegal aliens will receive that is attributable to their earnings in 1993.³¹ Huddle's rationale for using this approach to Social Security costs is the belief that the federal government is incurring a substantial obligation for future benefits to illegal aliens. However, the data needed to develop a reasonable estimate of the amount of Social Security benefits that illegal aliens will collect in the future are not available.³²

These different conceptual approaches to measuring Social Security costs appear to address different questions. The current accounts approach is relevant to the question of the current-year cost of benefits provided to illegal aliens who generally have reached retirement age. In contrast, the present value approach is more appropriate for answering the question of the long-term costs that will result from the presence of illegal aliens currently in the labor force. The explanation of the Social Security cost estimate in Huddle's updated study makes it difficult to discern whether he explicitly sought to address a different question than the one addressed by the Urban Institute's study.

Displacement Costs

Although illegal aliens by law are not entitled to work in this country, they often find employment. This raises questions about the extent to which illegal aliens take jobs away from legal residents—U.S. citizens and aliens residing legally in the country. Job displacement can generate costs to all levels of government for various forms of public assistance provided to legal residents who lose their jobs. Huddle's initial and updated studies

³¹The present value of a future benefit is the amount that would be sufficient, if invested at a given interest rate, to fund the expected future stream of payments.

³²For example, Huddle's estimate assumes that 75 percent of illegal aliens in the work force eventually will collect Social Security benefits, but data are not available to determine whether this is a reasonable assumption.

include \$4.3 billion in costs for public assistance—Medicaid, AFDC, Food Stamps, unemployment compensation, and general assistance—provided to displaced U.S. citizen workers. In contrast, the Urban Institute’s study concludes that any job displacement costs are offset by the positive economic effects of illegal aliens. These positive economic effects include the new jobs and additional spending (the multiplier effect) generated by illegal aliens’ spending on goods and services. Huddle’s subsequent response to the Urban Institute’s position is that the social and economic costs associated with each of the claimed economic benefits would have to be assessed.³³

It is very difficult to quantify the positive and negative effects of illegal aliens on the economy. With regard to job displacement, our analysis indicates that Huddle’s \$4.3 billion estimate is based on a job displacement rate that is inconsistent with research findings on this topic. While some studies have shown that job displacement may occur, recent studies using national data generally have concluded that displacement is either small in magnitude or nonexistent. Huddle’s estimate assumes a displacement rate of 25 percent; that is, for every 100 low-skilled illegal alien workers, 25 U.S. citizens were displaced from their jobs in 1993. The estimate cites Huddle’s own studies on job displacement to support the 25-percent rate. However, these studies assume a correlation between the employment of illegal aliens and the unemployment of native workers that is not supported by any evidence. (See app. III for a more complete discussion of Huddle’s displacement cost estimate.)

With regard to positive economic effects, economic models have been developed to estimate multiplier effects; however, the models have not been used to measure the effects of subpopulations such as illegal aliens. As a result, the extent to which the positive economic effects of illegal aliens offset the costs they generate is unclear.

Local Revenues

The national net cost studies estimated the amounts of various revenues from illegal aliens collected by federal, state, and local governments. These include income, sales, property, Social Security, and gasoline taxes. (See app. II for a list of the revenues included in the studies.) Developing reasonable estimates of these revenues requires information about various characteristics of the illegal alien population, such as its size, age

³³For example, he maintains that researchers must ask “what is the net enhancement of consumer spending if one consumer population displaces another, or if added consumption must be financed by higher public sector outlays.” See *A Critique of the Urban Institute’s Claims of Cost Free Immigration: Huddle Findings Confirmed*, Carrying Capacity Network (Washington, D.C.: 1994).

distribution, income distribution, labor force participation rate, consumption patterns, and tax compliance rate. However, limited data are available on these characteristics. Furthermore, the studies differ in some of the revenues they include.

Huddle's initial estimate of the total revenues from illegal aliens was \$2.5 billion. The Urban Institute's study criticized Huddle's estimate for omitting several revenues—the largest being Social Security tax—and estimated \$7 billion in total revenues. Huddle's updated study, which estimated total revenues at \$10 billion, added several revenues that were not included in his initial study, such as Social Security tax, federal and state gasoline taxes, and city taxes. As shown in table 2, the major area of difference between the revenue estimates in the Urban Institute's study and Huddle's updated study was in their estimates of local revenues.

Table 2: Revenue Estimates in Urban Institute's Study and Huddle's Updated Study

Dollars in billions		
Revenues	Urban Institute's estimate (1992) ^a	Huddle's updated estimate (1993) ^b
Federal	3.740	3.691
State	2.146	2.337
Local	1.087	3.933
Total	6.973	9.961

^aJeffrey S. Passel and Rebecca L. Clark, *How Much Do Immigrants Really Cost? A Reappraisal of Huddle's "The Cost of Immigrants"* (Washington, D.C.: 1994), pp. 1-8, supplemented by data from Jeffrey Passel providing a breakdown of cost estimates for individual items; and Jeffrey S. Passel, *Immigrants and Taxes: A Reappraisal of Huddle's "The Cost of Immigrants"* (Washington, D.C.: 1994), table 7c.

^bDonald Huddle, *The Net National Costs of Immigration in 1993* (Washington, D.C.: 1994), exhibit 6.

Two factors help explain the difference in their estimates of local revenues. First, Huddle's updated study includes some local revenues not included in the Urban Institute's study, such as property taxes paid by businesses.³⁴ Second, the researchers' estimates of the per capita income of illegal aliens differ. The researchers use income as a factor in estimating the different revenues because the amount of revenues from illegal aliens is a function of their income levels. The per capita income figure in Huddle's updated study (\$7,013) is 36 percent higher than that in the Urban Institute's study (\$5,155). However, more recent work by the Urban

³⁴The source used by Huddle's updated study to estimate county revenues does not break out the amounts of property taxes collected from individuals versus businesses. The Urban Institute's study included only the portion of county property taxes paid by individuals.

Institute for the same general time period can be used to obtain an income figure closer to Huddle's—about \$7,739.³⁵ If this higher figure was substituted in the Urban Institute's study, the estimate of total revenues from illegal aliens would increase to \$10.5 billion, placing it closer to the \$10 billion figure in Huddle's updated study.

The reasonableness of the revenue estimates would remain unclear even if the gap between the estimates was narrowed, due to the limited data available on the characteristics of the illegal alien population. For example, the estimates of illegal aliens' incomes cited above are derived from two main sources: survey data on former illegal aliens who were legalized under IRCA and 1990 Census data on the foreign-born population (which does not distinguish illegal from legal aliens). By using these sources to develop estimates, the researchers assumed that the average income of illegal aliens was similar to that of aliens legalized under IRCA or to the foreign-born population (either to the population overall or subpopulations from specific countries). However, the reasonableness of these assumptions is unknown.³⁶

Estimates of National Net Costs Could Be Improved

Our review of the national net cost studies highlighted two key issues: the limited data on the illegal alien population and the considerable variation in both the items that the studies included and their treatment of some of the same items. These issues led us to conclude that considerable uncertainty remains about the national fiscal impact of illegal aliens. Obtaining better data on the illegal alien population and providing clearer explanations of which costs and revenues are appropriate to include would help improve the usefulness of the national estimates.

Better Data on Illegal Alien Population Needed

The limited availability of data on illegal aliens is likely to remain a persistent problem because persons residing in the country illegally have

³⁵In Rebecca L. Clark and others, *Fiscal Impacts of Undocumented Aliens: Selected Estimates for Seven States*, Urban Institute researchers developed estimates of the per capita income of illegal aliens in the seven states estimated to account for about 86 percent of the illegal alien population. To obtain the \$7,739 figure, we assumed that the per capita income of illegal aliens in all other states was the average of the seven states. We then weighted these income estimates based on the INS estimate of the geographic distribution of illegal aliens cited in the report.

³⁶For instance, the average income of illegal aliens who were legalized under IRCA may have been lower than that of illegal aliens who were not legalized because the former group included a much higher percentage of persons born in Mexico than the latter, and Mexican-born residents have among the lowest incomes of the foreign-born population. See Rebecca L. Clark and others, *Fiscal Impacts of Undocumented Aliens: Selected Estimates for Seven States*, chapters 2 and 6. Similarly, foreign-born residents who reside legally in the United States may have higher or lower incomes than illegal aliens who immigrated from the same countries and in the same time period.

an incentive to keep their status hidden from government officials. Yet as researchers explore new possibilities for overcoming some of the obstacles to collecting data on this population, some progress may be achieved.³⁷

Given the data gaps in so many areas, any effort to collect better data should focus on those data that would have the greatest impact in improving the estimates of net costs. Thus, emphasis could be placed on obtaining data on illegal aliens' use of those public benefits associated with the largest cost items or their payment of those taxes associated with the largest revenue items. For example, elementary and secondary education is estimated to be the single largest program cost; thus, researchers could focus on obtaining data on the number of illegal alien schoolchildren. However, researchers may confront legal barriers in attempting to collect these data.³⁸

Another approach, which could be used in conjunction with the first, would be to obtain data on characteristics of the illegal alien population that would have broad usefulness by permitting researchers to estimate several cost or revenue items. For example, data on the illegal alien population's size, geographic distribution, age distribution, income distribution, labor force participation rate, and tax compliance rate would be useful in estimating many types of revenues. Better data on the size of the population also would be useful in estimating most of the public costs of illegal aliens.

Clearer Explanation Needed of Items That Should Be Included in Net Cost Studies

Obtaining better data on the illegal alien population will not resolve all the problems associated with estimating the net costs of illegal aliens. Researchers will still face issues about which items are appropriate to include in the estimates and how the items should be treated. As we have seen, different decisions on these issues can generate considerable variation in estimates of net costs. Researchers need to clearly explain how they handled such issues in order to facilitate comparisons of their estimates. For example, when the decision about whether an item should

³⁷We are in the initial process of developing an estimation methodology that may prove useful in obtaining better data on the illegal alien population. The methodology involves surveying foreign-born residents about their immigration status in a way that does not cause any respondent to identify himself or herself as an illegal alien, yet would permit the development of reliable estimates regarding the size and characteristics of the illegal alien population.

³⁸As we noted in our California report, many school districts in California believe that the U.S. Supreme Court decision, *Plyler v. Doe*, prohibits them from asking about the immigration status of students. See *Illegal Aliens: Assessing Estimates of Financial Burden on California* (GAO/HEHS-95-22, Nov. 28, 1994).

be included or how it should be treated depends on the policy question being asked, a study should clearly acknowledge the question it addresses. The variations in the national studies' treatment of costs for citizen children of illegal aliens and Social Security costs were difficult to assess because the studies did not make clear which questions they were addressing.

Federal Effort to Improve Estimates of Aliens' Fiscal Impact

Recognizing the need for better information on the effects of immigration, a federal effort is under way to improve estimates of the fiscal impact of legal and illegal aliens. The U.S. Commission on Immigration Reform, a bipartisan congressional commission created by the Immigration Act of 1990, is working on a final report to the Congress, due in 1997, on a wide range of immigration issues. The Commission provided an interim report to the Congress in September 1994.³⁹ The Commission has convened a panel of independent experts organized by the National Academy of Sciences to review the methodologies and assumptions of studies of the costs and benefits of immigration. The panel will develop recommendations on the data sources and methodologies that hold the greatest promise for more precise measurement of the economic and social impacts of legal and illegal immigration.

Conclusions

The three national studies that we reviewed represent the initial efforts of researchers to develop estimates of the total public fiscal impact of the illegal alien population. The little data available on this population make it difficult to develop reasonable estimates on a subject so broad in scope. Moreover, the national studies varied considerably in the range of items they included and their treatment of certain items, making their estimates difficult to compare. As a result, a great deal of uncertainty remains about the national fiscal impact of illegal aliens.

Obtaining better data on the illegal alien population would help improve the national net cost estimates. Recognizing the difficulties inherent in collecting better data on a population with an incentive to keep its status hidden from government officials, any effort to collect better data should focus on those characteristics of the illegal alien population that are useful in estimating the largest net cost items, or many of them. These characteristics include the population's size, geographic distribution, age

³⁹U.S. Immigration Policy: Restoring Credibility, U.S. Commission on Immigration Reform (Washington, D.C.: U.S. Government Printing Office, 1994).

distribution, income distribution, labor force participation rate, tax compliance rate, and extent of school participation.

Clearer explanations of which costs and revenues are appropriate to include would also help improve the usefulness of the estimates. The appropriateness of including any particular item may depend on the policy questions addressed by a study. If studies were more explicit about the questions they address, their estimates of net costs would be easier to compare.

The expert panel convened by the U.S. Commission on Immigration Reform could serve as a forum for discussing some of these data and conceptual issues. By exploring ways to provide lawmakers with better information on the public fiscal impact of illegal aliens, researchers could help provide a basis for the development of appropriate policy responses to address the problems of illegal immigration.

Comments and Our Evaluation

We obtained comments on a draft of this report from the Urban Institute and Donald Huddle (see apps. V and VI). In their comments, the researchers restated their disagreements with each other on a number of topics, including the size of the illegal alien population, the appropriate treatment of costs for citizen children of illegal aliens and Social Security costs, and the magnitude of indirect costs such as those attributable to job displacement. The researchers also cited areas in which they maintained that our report did not sufficiently identify the problems with each other's estimates. In addition, they provided technical comments that we incorporated where appropriate to better characterize the methodologies they used in their net cost estimates.

The Urban Institute researchers agreed with much of the report's analysis and its conclusions about the need for better data on the illegal alien population and sharper definitions of the accounting framework used. However, they took exception with two points in our report. They maintained that it is possible to test the reasonableness of the underlying assumptions used in the net cost estimates by developing estimates for reference groups⁴⁰ and that their estimate of Social Security costs attributable to illegal aliens was reasonable. Huddle disagreed with several of the report's findings. He maintained that the report was too negative in

⁴⁰The reference groups are citizens and groups of immigrants other than illegal aliens. Urban Institute researchers noted that estimates of total costs for a program (or total tax payments) attributable to illegal aliens and reference groups can be tested by comparing them with actual government program expenditures (or revenues collected).

claiming that the reasonableness of many of the assumptions in the net cost estimates is unknown. In elaborating this point, Huddle argued that the results of various surveys of illegal aliens' use of public benefits are consistent with the utilization rates in his cost estimates. Huddle also asserted that our report's criticism of his Social Security and displacement cost estimates were unjustified.

We believe that our report accurately describes the problems researchers face in developing estimates of the national fiscal impact of the illegal alien population. With regard to the reasonableness of the assumptions in the net cost estimates, we agree with Urban Institute researchers that developing cost and revenue estimates for reference groups can provide a "reality check" on estimates for illegal aliens, as well as a useful context for assessing the net cost estimates. However, the use of reference groups provides only a limited test and does not ensure that the estimates for a particular immigrant group are reasonable. We find Huddle's claim that the assumptions in his estimates are consistent with the results of survey studies problematic for several reasons. The utilization rates reported by these studies vary considerably, the reliability of some of the studies has been questioned, and the extent to which the findings of these studies can be generalized to the illegal alien population nationwide is unclear.

On the issue of Social Security costs for illegal aliens, we continue to believe that data limitations preclude the development of a reasonable estimate. To support their estimate that these costs are zero, the Urban Institute researchers cited some reasons why illegal aliens are not likely to be receiving Social Security benefits. Huddle, on the other hand, criticized the Urban Institute's estimate by citing several reasons for believing that illegal aliens are receiving benefits. Given the researchers' disagreement and the lack of national data on the number of illegal aliens receiving benefits, we have no basis for supporting either of these positions. Data limitations also lead us to question Huddle's estimate of Social Security costs. For example, Huddle claimed that at least 75 percent of illegal aliens in the work force have valid Social Security numbers, but he did not provide sufficient evidence to support this claim. Moreover, data are not available to assess his claim.

Finally, with regard to the magnitude of displacement costs, we continue to believe that Huddle's estimate overstates these costs because it is based on a displacement rate that is inconsistent with research findings on job displacement. (See pp. 32-33 for a more detailed discussion of Huddle's comments and our responses on this issue).

The comments from the Urban Institute and Huddle reinforce our assessment of how difficult it is to develop estimates of the national fiscal impact of illegal aliens, given the limited data available. As noted in this report, obtaining better data on some of the key characteristics of the illegal alien population could help narrow the gap between the researchers' widely varying estimates of the national net cost. Moreover, clearer explanations of the approaches used would make the net cost estimates more useful.

Our work was conducted in accordance with generally accepted government auditing standards. If you or your staff have any questions concerning this report, please call me on (202) 512-7215. Other GAO contacts and staff acknowledgments are listed in appendix VII.



Jane L. Ross
Director, Income Security Issues

Contents

Letter	1
Appendix I Studies of the Net Fiscal Impact of Illegal Aliens	28
Appendix II Cost and Revenue Items Included in Estimates of the National Net Costs of Illegal Aliens	29
Appendix III Review of Huddle's Displacement Cost Estimate	31
Appendix IV Experts Consulted by GAO	34
Appendix V Comments From the Urban Institute	35
Appendix VI Comments From Donald Huddle	46

Appendix VII GAO Contacts and Staff Acknowledgments		56
Bibliography		57
Related GAO Products		64
Tables	Table 1: Major Areas of Difference Between Urban Institute's Estimate and Huddle's Updated Estimate of National Net Costs	13
	Table 2: Revenue Estimates in Urban Institute's Study and Huddle's Updated Study	18
Figure	Figure 1: Estimated Net Costs to Federal, State, and Local Governments for Illegal Aliens in the United States	8

Abbreviations

AFDC	Aid to Families With Dependent Children
HUD	Department of Housing and Urban Development
INS	Immigration and Naturalization Service
IRCA	Immigration Reform and Control Act
JTPA	Job Training Partnership Act
WIC	Special Supplemental Food Program for Woman, Infants, and Children

Studies of the Net Fiscal Impact of Illegal Aliens

Author(s) and date of study	Geographic area and time period studied	Level of government studied	Estimated net fiscal impact
Huddle (1994)	United States, 1993	Federal, state, and local	(\$19 billion)
Passel and Clark (Urban Institute) (1994)	United States, 1992	Federal, state, and local	(\$2 billion)
Huddle (1993)	United States, 1992	Federal, state, and local	(\$12 billion)
Huddle (1994)	Florida, 1992	Federal, state, and local	(\$913 million)
Huddle (1994)	Texas, 1992	Federal, state, and local	(\$1 billion)
Huddle (1993)	California, 1992	Federal, state, and local	(\$5 billion)
Parker and Rea (1993)	San Diego County, fiscal year 1992-93	State and local	(\$244 million)
Parker and Rea (1992)	San Diego County, fiscal year 1991-92	State and local	(\$146 million)
Texas Governor's Office of Immigration and Refugee Affairs (1993)	Texas, 1993	State and local	(\$130-\$166 million)
Romero and others (1994)	California, fiscal year 1994-95	State	(\$2.7 billion)
Los Angeles County Board of Supervisors (1992)	Los Angeles County, fiscal year 1991-92	Local	(\$272 million)
Los Angeles County Chief Administrative Office (1991)	Los Angeles County, fiscal year 1990-91	Local	(\$276 million)
Lyndon B. Johnson School of Public Affairs (1984)	Texas, fiscal year 1982	State	\$60-\$227 million
	Six Texas cities, fiscal year 1982	Local	(\$4-\$30 million)

Source: GAO analysis of studies.

Cost and Revenue Items Included in Estimates of the National Net Costs of Illegal Aliens

Dollars in millions			
Items	Huddle's initial estimate (1992) ^a	Urban Institute's estimate (1992) ^b	Huddle's updated estimate (1993) ^c
Direct program costs			
Primary and secondary education	\$3,909	\$3,679	\$4,369
Primary and secondary education (citizen children)	d	d	2,828
Federal student aid	d	d	72
Public higher education	342	257	485
School lunch	109	107	121
School lunch (citizen children)	d	d	63
Adult education	d	d	28
Head Start	17	9	12
English as a Second Language, English for Speakers of Other Languages, and bilingual education	858	771	1,074
English as a Second Language, English for Speakers of Other Languages, and bilingual education (citizen children)	d	d	556
Compensatory education	101	101 ^e	122
AFDC	820	202	919
Food Stamps ^f	d	4	414
WIC	81	46	93
Elderly nutrition	1	1	1
Housing assistance	295	153	326
Low-income home energy assistance	32	16	27
Criminal justice (corrections)	1,031	1,031 ^e	541
Unemployment compensation	d	d	856
JTPA	d	d	72
General assistance	d	d	92
Medicaid	479	463	509
Earned Income Tax Credit and health care tax credit	d	d	278
State and federal highway costs	d	d	435
Community block grants	d	d	90
County costs	2,021	2,021 ^e	2,472
City costs	d	d	4,887
Social Security	d	0	3,266
Total direct program costs	\$10,096	\$8,861	\$25,008

(continued)

**Appendix II
Cost and Revenue Items Included in
Estimates of the National Net Costs of
Illegal Aliens**

Dollars in millions

Items	Huddle's initial estimate (1992)^a	Urban Institute's estimate (1992)^b	Huddle's updated estimate (1993)^c
Displacement costs	4,291	0	4,290
Total costs	\$14,387	\$8,861	\$29,298
Revenues			
Federal income tax	\$368	\$515	\$890
Federal excise tax	499	181	250
Federal gas tax	^d	155	166
Social Security tax	^d	2,721	2,385
Unemployment insurance tax	^d	168	^d
State revenues	1,335	2,146	2,337
Local revenues	284	1,087	3,933
Total revenues	\$2,486	\$6,973	\$9,961
Net costs (costs less revenues)	\$11,901	\$1,888	\$19,337

^aDonald Huddle, The Costs of Immigration (Washington, D.C.: 1993), exhibits 5, 6, and 12.

^bJeffrey S. Passel and Rebecca L. Clark, How Much Do Immigrants Really Cost? A Reappraisal of Huddle's "The Cost of Immigrants" (Washington, D.C.: 1994), pp. 1-8, supplemented by data from Jeffrey Passel providing a breakdown of the cost estimates for individual items; and Jeffrey S. Passel, Immigrants and Taxes: A Reappraisal of Huddle's "The Cost of Immigrants" (Washington, D.C.: 1994), table 7c.

^cDonald Huddle, The Net National Costs of Immigration in 1993 (Washington, D.C.: 1994), exhibits 5, 6, and 12.

^dThe estimate does not include this item.

^eThe Urban Institute's estimate uses Huddle's initial estimate for this item.

^fThe Urban Institute's estimate is for the costs of benefits received fraudulently by illegal aliens; Huddle's updated estimate is for the cost of benefits to U.S. citizen children of illegal aliens.

Review of Huddle's Displacement Cost Estimate

In our view, Huddle's estimate of \$4.3 billion in displacement costs is based on a displacement rate that is too high. The estimate assumes that for every 100 low-skilled illegal alien workers, 25 U.S. citizens were displaced from their jobs in 1993. This assumption of a 25-percent displacement rate is inconsistent with research findings on job displacement.

Huddle's Research on Displacement

Huddle's study cites his own work on job displacement to support the claim that the level of displacement is at least 25 percent. In several field surveys that focused on the labor market in the Houston metropolitan area, Huddle claimed to have found displacement rates that ranged from 23 to 53 percent in the 1980s.¹ The figures that Huddle cited in his 1982-83, 1985, and 1989-90 "microstudies of job displacement" are based on the percentages of unemployed native workers he surveyed who were still unemployed after some period of time. However, these figures cannot be construed as measures of displacement by illegal aliens because the studies did not show that the unemployed natives lost their jobs to illegal aliens or were unable to find work because of the presence of illegal aliens in the Houston labor market.

In effect, Huddle's microstudies of job displacement assumed a correlation between the employment of illegal aliens and the unemployment of native workers that was unsupported by any evidence. In addition, even if the studies had accurately measured the level of job displacement in Houston in the 1980s, the phenomenon of job displacement is so sensitive to the locality where it is measured that the studies' results for Texas cannot be generalized to the nation.

Other Research on Displacement

In his national net cost study, Huddle maintains that the 25-percent displacement rate is a conservative figure because an even higher displacement rate can be derived from a study by Altonji and Card.² However, this contradicts the conclusion that the authors draw from their own research. Altonji and Card summarize the results of their study as indicating that immigrants have a small and potentially zero effect on the employment rates of natives. Furthermore, Huddle's interpretation of

¹Donald L. Huddle, "Immigration and Jobs: The Process of Displacement," The NPG Forum (May 1992), pp. 1-5.

²Joseph G. Altonji and David Card, "The Effects of Immigration on the Labor Market Outcomes of Less-skilled Natives," Immigration, Trade and the Labor Market, eds. John M. Abowd and Richard B. Freeman (Chicago: University of Chicago Press, 1991).

Altonji and Card's econometric results is based on an incorrect use of statistics. Huddle sums the coefficients from three separate regression equations, each with a different dependent variable.³

The work of other researchers does not support the claim of a 25-percent displacement rate. Our 1986 review of the literature on job displacement concluded that illegal aliens may displace native workers. However, it found that the available research was inconclusive because it was limited and suffered from important methodological weaknesses.⁴ In addition, the experts that we consulted during our review agreed that while there is no consensus on what the average displacement rate might be, the literature on displacement does not support the claim of a rate as high as 25 percent. Recent studies using nationwide data have concluded that job displacement by aliens is either small in magnitude or nonexistent.⁵ The literature on job displacement that focuses specifically on illegal aliens has reached the same conclusion.⁶

Huddle's Comments and Our Evaluation

In his comments on a draft of our report, Huddle maintained that our criticism of his displacement cost estimate was unjustified (see app. VI). Huddle made four main points about our discussion of displacement. First, he contended that we had misunderstood his definition of displacement and were not including other types of displaced workers, such as teenagers who could not find first-time jobs and workers who had to physically move in order to look for work. Second, Huddle maintained that the coefficients from the four different equations in the Altonji and Card study are additive. Third, Huddle claimed that we did not consider the effect of illegal immigrants on wage depression as well as job displacement. Finally, Huddle maintained that his interpretation of the literature on job displacement was valid and that other experts would agree with him.

³This is an inappropriate use of the results of multivariate regression analysis and has no statistical meaning.

⁴Examples of methodological weaknesses included the use of unreliable methods, such as hearsay, to identify illegal alien workers and inappropriate statistical procedures to support inferences (for example, cross-sectional or single-period data used to support cause-and-effect inferences that implied a temporal sequence). See *Illegal Aliens: Limited Research Suggests Illegal Aliens May Displace Native Workers* (GAO/PEMD-86-9BR, Apr. 1986).

⁵See the studies by Altonji and Card, Enchautegui, Greenwood and Hunt, and Greenwood and McDowell.

⁶See the studies by Winegarden and Khor, and Taylor and others.

With respect to Huddle's definition of displacement, we do not agree that it is valid to apply this broader definition in calculating the costs of the array of social service benefits he cites. Workers who have never entered the labor force cannot collect unemployment benefits, for example, and teenagers in particular are not likely to be individually eligible for the full range of welfare benefits. Workers who migrate elsewhere, that is, those who are physically displaced due to the presence of illegal aliens in the work force, may not necessarily be jobless or earning such a low wage in their new place of residence that they would be eligible for welfare benefits. Most importantly, there is no evidence of how many displaced workers remain permanently unemployed and, therefore, continue to collect welfare over a long period of time. In our view, ascribing full costs to this broader set of workers overstates the true cost of displacement.

With respect to Huddle's claim that the coefficients in table 7.7 of the Altonji and Card study are additive, we disagree. Adding the coefficients on the first equation, which measures the ratio of people in the labor force to the population as a whole, and the second equation, which measures the ratio of employed persons to the population as a whole, effectively double-counts all employed persons, because the second ratio is a subset of the first. In addition, no other researcher we consulted, including one of the authors, interpreted the Altonji and Card study in the way that Huddle did, nor did they agree with Huddle's methodology of adding coefficients from separate regression equations to get a measure of total labor displacement.

With respect to Huddle's claim that we overlooked the phenomenon of wage depression, we did not make an evaluation of the impact of illegal aliens on wage depression because that was outside the scope of the net cost studies we reviewed. These studies specified job displacement only, and it is our judgment that the evidence on job displacement is much weaker than the evidence on wage depression. Huddle's claim that job displacement and wage depression are close substitutes in terms of their impact on the low-skill native work force and on the net cost of public services is not supported by any empirical evidence or reference to any relevant literature.

Finally, with respect to our overall conclusion and our interpretation of the literature, we thoroughly reviewed the literature and consulted with recognized experts on immigration (see app. IV for a list of these persons). None of the experts we consulted believes that a displacement rate as high as 25 percent is supported by the research literature.

Experts Consulted by GAO

George J. Borjas, Professor of Economics, University of California, San Diego.

David Card, Professor of Economics, Princeton University.

Richard Fry, Division of Immigration Policy and Research, Bureau of International Labor Affairs, U.S. Department of Labor, Washington, D.C.


Briant Lindsay Lowell, Division of Immigration Policy and Research, Bureau of International Labor Affairs, U.S. Department of Labor, Washington, D.C.

Demetrios Papademetriou, Carnegie Endowment for International Peace, Washington, D.C.

Stephen J. Trejo, Associate Professor of Economics, University of California, Santa Barbara.

Sidney Weintraub, Center for Strategic and International Studies, Washington, D.C.; Dean Rusk Chair in International Affairs, Lyndon B. Johnson School of Public Affairs, University of Texas, Austin.

Comments From the Urban Institute

 **THE URBAN INSTITUTE** 2100 M STREET, NW • WASHINGTON, DC 20037

Jeffrey S. Passel
Director, Program for Research
on Immigration Policy

telephone: (202) 857-8678
fax: (202) 452-1840
e-mail: jpassel@ui.urban.org

June 20, 1995

Jane L. Ross
Director, Income and Security Issues
U.S. General Accounting Office
Washington, D.C. 20548

Dear Ms. Ross:

We appreciate the opportunity to comment on the draft of your proposed report, *Illegal Aliens: National Net Cost Estimates Vary Widely*. We agree with much of the report's analysis and its two main recommendations: the need for better data on the illegal alien population, its use of services, and payment of taxes; and sharper definitions of the accounting framework used (i.e., which costs and revenues to include) with better linkage to policy questions. In doing the Urban Institute study, we largely adopted the framework of Huddle's estimates, so that the studies are essentially addressing the same issues. Consequently, the differences between our estimates are largely methodological.

Two other points, addressed in your report, we consider sufficiently important to warrant inclusion in the general summary. First, it is possible to test the "reasonableness" of most of the underlying assumptions, contrary to your assertion otherwise (see p. 5 and 11 of the draft report¹). Second, if indirect effects, such as "displacement costs," are to be included in an estimate of fiscal impacts, it is essential that a balanced approach be employed.

An extremely important point that we think should be included in your report is that, in this type of analysis, estimates for a reference group should be included so that *relative* fiscal impacts can be evaluated and so that the reasonableness of underlying assumptions can be judged. By applying the same methodology to natives and different immigrant groups, both cost and revenue estimates can be judged against administrative data (and adjusted accordingly). We have taken this approach in much of our own work (Passel 1994; Clark 1994; Clark et al. 1994). Without an estimate of total fiscal impact, a statement that "group X costs \$Y billion more in services than it pays in taxes" is meaningless. In an era of \$200 billion federal deficits, one cannot assume that *any* population group pays its own way. For example, consider the Los Angeles County study of the impacts of immigrants (ISD 1992). This study is one of the few such studies to include natives in its computations of costs and revenues. Recent immigrants were found to generate an annual deficit of \$800 million to the county, implying a large subsidy from natives. However, the report also

¹ Unless otherwise noted, all page references will be to the draft report we received with your letter of May 31, 1995.

Now on pp. 3 and 6.

Ross, Jane L.

June 20, 1995
Page 2

estimated a net deficit of \$800 million for natives. Commercial interests actually subsidize both natives and immigrants.²

While we agree with your assessment that Huddle's erroneously overstates displacement costs, the larger point should be made that including such costs while not including other indirect effects is inherently biased; that is, only one side of the indirect ledger (costs) is included. Indirect costs and benefits are much more difficult to quantify than the direct governmental impacts. There are, however, many others besides job displacement; a partial list would include:

- wage suppression (cost);
- failure of certain industries to mechanize and modernize (cost);
- creation of jobs for natives supporting the work done by illegal immigrants and through the multiplier effect of consumer spending by illegal immigrants (benefit);
- retention of industries and jobs in the United States (benefit);
- benefits accruing to employers, land owners, landlords from employing and renting to illegal immigrants (benefit);
- savings to consumers on goods produced by illegal immigrants (benefit).

The remainder of this letter comments on major issues raised in your report. They largely follow the outline of the report and are grouped accordingly.

Indirect Estimation

It is true, as you state on p. 11, that estimates of costs of undocumented aliens "generally rely" on indirect estimation methods. This statement does not emphasize strongly enough that with *virtually all studies* are based on indirect estimation methods.³

Reliance on indirect methods does not, by itself, require that the reasonableness of assumptions be unknown or untestable, as the report implies on p. 11. As we note above, it is still possible to evaluate the quality of many underlying assumptions. For example, in the Passel-Clark work, estimates are made not only for undocumented aliens, but for legal immigrants and natives as well. We then check to make sure that the total benefits used (and total taxes paid) equal the actual amounts expended (or collected). Studies without this external "reality check" should be viewed with extreme caution.

² A more thorough discussion of the accounting issues can be found in Clark and Passel (1993). This review also found that the deficits were closer to \$600 million for immigrants and \$1 billion for natives.

³ One extremely rare example of a direct estimate is Clark's (1994) estimate of food stamp use by immigrants, which relies on Food Stamp Quality Control data. (See below.)

Now p. 6.

Ross, Jane L.

June 20, 1995
Page 3

Size of Population

Your report says that Huddle estimates that the number of undocumented aliens in the United States as of October 1992 is 4.8 million, and that the Urban Institute maintains that this estimate is too high (p. 15). The text should state explicitly that the Urban Institute's position is supported by the two most widely accepted estimates of the number of undocumented aliens in the United States. According to official INS estimates, in October 1992, there were approximately 3.4 million undocumented aliens in the United States (Warren 1994). According to official U.S. Bureau of the Census estimates, there were 3.5–4 million undocumented aliens in April 1994 (Fernandez and Robinson 1994).

Using reasonable, supportable estimates of the size of the undocumented population is crucial because all of the estimates of fiscal impacts are directly proportional to the numbers of illegal immigrants; that is, if Huddle's population estimate is 50 percent too high, then his cost estimate is also 50 percent too high, even without correcting any other errors. This point should also be made explicit in the text of the report.

We commend you for correctly noting that, notwithstanding our disagreement with Huddle over the number of illegal aliens, we adopt his population to facilitate comparisons. Huddle's (1994b) review of our work misinterprets this point.

You state (p. 6) state that more than three-quarters of the illegal alien population lives in California, New York, Texas, Florida, Illinois, Arizona, and New Jersey. While this is true, it understates the degree of geographic concentration. According to official INS estimates, in October 1992, these states contained 86 percent of the undocumented alien population (Warren 1994).

Eligibility for Federal Benefits

A key issue in estimating the fiscal impacts of illegal aliens is estimating the degree to which this group uses federal, state, and local government services. In the area of social programs, estimates of usage rates in all three studies are based on data from the 1990 Census, yet they differ significantly in the way immigrants, and particularly illegal immigrants, are treated. Specifically, the Urban Institute's studies attempt to match census data to particular immigrant groups — e.g., data for recent immigrants from southeast Asian countries, Cuba, and selected eastern European countries are used to represent refugees; data for recent immigrants from Mexico and other major source countries, to represent illegal immigrants. Huddle, on the other hand uses the same data for the entire foreign-born population to represent each different group of immigrants. This method has the effect of overstating usage of social services for illegal immigrants since refugees, elderly immigrants, and long-term foreign-born residents are the heaviest users of welfare, not immigrants from the countries which are the major sources of illegal immigration; furthermore, working-age immigrants, notwithstanding their low incomes, appear to have much lower than average usage rates, even in the programs for which they are eligible (Fix and Passel 1994).

Your report, on pages 16 and 17, gives only a very general description of how Huddle estimates the reciprocity rates and average benefit levels of undocumented aliens. Huddle's

Now on p. 9.

Now on p. 3.

Now on p. 10.

Ross, Jane L.

June 20, 1995
Page 4

estimates are based on a welfare “multiplier,” which he applies to many non-welfare programs. Given the importance of this method for the overall estimate of costs associated with illegal immigrants, it would be worthwhile to describe how this “multiplier” is derived and to critically evaluate it. A detailed critique of Huddle’s multiplier can be found in “The Costs of Providing Public Assistance and Education to Immigrants” (Clark 1994). The main problems associated with Huddle’s multiplier are as follows:

- Huddle applies his multiplier incorrectly. The multiplier is the ratio of use of welfare by immigrants to use of welfare by natives. Huddle then derives program-specific estimates of usage by multiplying the welfare use rate for the *U.S. population overall* times this multiplier. Because the denominator of the multiplier is use by natives and not the total population, this methodology systematically overstates welfare use by immigrants, even if all underlying assumptions are correct.
- Huddle assumes all immigrants have the same rates of welfare use and receive, on average, the same amount in benefits. Clark’s (1994) analysis shows that welfare use and benefit levels differ significantly across immigrant groups (illegal immigrants, refugees, and other legal immigrants).
- Huddle’s welfare multiplier is constructed in such a way that welfare use by native-born children is attributed to foreign-born parents. While this may arguably be a reasonable assumption, Huddle then double counts this usage by making a separate estimate for U.S.-born children of illegal immigrants. (See below.)
- Huddle fails to check the accuracy of his estimates by comparing his estimates of the total amount allocated to program users (1970 and later entrants, pre-1970 immigrants, and natives) to the actual amounts spent according to administrative sources. (See discussion above regarding “Indirect Estimation.”)
- Huddle applies the welfare-use multiplier to non-welfare programs. Clark (1994) checked the validity of applying this multiplier to non-welfare programs by comparing Huddle’s estimates of food stamp use by immigrants with Food and Nutrition Service (FNS) data based on actual use of food stamps by immigrants, not indirect estimates based on 1990 Census data. This analysis reveals that Huddle’s methodology results in an overestimate of more than \$1.2 billion for the costs of providing food stamps to immigrants. For the school lunch program, Huddle’s method *underestimates* expenditures on undocumented aliens because the multiplier assumes that undocumented alien children are no more likely to be from low-income families than other immigrant children. Other program estimates that may be affected by such erroneous application of the welfare-use multiplier include Medicaid, housing assistance, low-income energy assistance, job training, WIC, elderly nutrition programs, and Head Start.

Ross, Jane L.

June 20, 1995
Page 5

Costs for Citizen Children of Illegal Aliens

Your discussion of whether the costs of the U.S.-born citizen children of undocumented aliens should be included when estimating costs attributable to undocumented aliens (pp. 20–22) just touches on some of the main issues. There is no consensus about how to treat expenditures for these children. The major argument against including them is that these children are U.S. citizens. The major argument for including them is that, if their mothers had not been illegally in the United States at the time of the children's births, the children would not have been born here and, therefore, would not be accruing expenses. The problem with this latter argument is that all children are assigned the legal status of their mothers — the role of *fathers* is completely ignored. If the fathers of these children are U.S. citizens or legal residents, then the children would be U.S. citizens, regardless of the legal status of their mothers. There is evidence that a large and increasing number of households contain both undocumented alien and legal immigrant parents (Chavez 1991), so this estimation problem is probably too large to simply be ignored.

Another problem with estimating the costs of the U.S.-born children of undocumented aliens is that there is very little data, and virtually no agreement among analysts, about the numbers of these children. Before any estimates of the costs of these children are accepted, the estimation procedures used must be rigorously examined.

Costs for General Public Services

The component of costs labelled "County costs" and "City costs" include virtually all governmental costs not included elsewhere, regardless of whether the services are delivered to individuals or not. In addition to the examples cited in your report (p. 23), some others include the costs of salaries for public elected officials, the costs of police protection and garbage pick-up for businesses, and many others that would be incurred even if there were no illegal aliens in the country. Thus, many of these cost elements should not be included in the estimation procedure. The report's discussion of average versus marginal costs (pp. 24–25) touches indirectly on this issue, but the discussion could be expanded.

Huddle's estimate of city and county costs seems to include a significant error. According to his footnote explaining net city and county costs, these estimates are

...a population-weighted average of the following expenditure items: *education, public welfare, hospital, health, judicial/legal, corrections*. Added to the preceding items (from July 1993 study) were expenditures on police, fire, libraries, park and recreation, highways, sewerage, financial administration and interest on public debt. (Huddle 1994a: National Exhibit 5, page 8. Emphasis added.)

City and county costs for the italicized items are already included in estimates developed specifically for these items. Thus, Huddle's estimates double count a major portion of costs associated with illegal immigration, including the single largest element of costs — elementary and secondary education.

Now on pp. 13-14.

Now on p. 14.

Now p. 15.

Ross, Jane L.

June 20, 1995
Page 6

Social Security Costs

As your report correctly notes (pp. 25–27), a major difference between the Urban Institute’s study and Huddle’s second study is the treatment of Social Security costs.⁴ However, your description of Huddle’s method and the differences between the estimates does not fully capture the degree to which we disagree. Although our revenue estimates are similar, there are some differences in the underlying assumptions and we believe that Social Security revenues attributable to immigrants are actually one-third higher than those estimated with Huddle’s method. Specifically, he attributes only one-half of the employer’s Social Security contribution to the immigrant employee. However, none of this tax, neither the employer’s nor employee’s shares, would be paid if the employee were not present. Thus, we argue that the full Social Security tax collect from the employee and employer should be attributed to the immigrant.⁵

Huddle’s method for calculating Social Security costs is to allocate the total benefits paid to retirees in 1993 across the different immigrant groups (illegal immigrants, amnesty immigrants, and legal immigrants) in proportion to each groups share of the labor force. Your report interprets this method as “the ‘present value of future benefits’ that illegal aliens will collect” (p. 26). We do not believe that this estimate is sound; a full computation of present value must take into account not only the immigrants earnings and likelihood of collecting Social Security, but myriad other factors which are omitted, including years in the United States, immigrants’ ages, and probability of emigrating. A fairer allocation of Social Security costs in 1993 would be to allocate the costs according to the proportion the population aged 65 and over in each immigrant and native population group. Using this method, Huddle’s estimate implies that, on average, every illegal immigrant aged 65 or over is collecting roughly \$68,000 per year in Social Security benefits.

Although we believe that the different estimates of Social Security costs represent more than simply conceptual differences (“current accounts” versus “present value”), it is important that cost and revenue estimates be done on a consistent basis. Use of present value for only this one component is, we believe, unwarranted when all other costs and revenues are calculated on the basis of current accounts. Using present value for Social Security costs inflates this cost component substantially. The present value approach is an interesting one, but if fully applied, it would require estimating the present value of future tax revenue attributable to the increased education received by immigrants, for example. It might also require estimating the additional revenue from immigrants attributable to education received outside the country at no cost to U.S. taxpayers.

⁴ The first Huddle study (1993) did not include Social Security at all.

⁵ This same argument can be made with regard to unemployment insurance. Here Huddle counts the full cost of unemployment benefits paid to immigrants as a cost, but *none* of the taxes (premiums) paid by employers on behalf of their employees is considered in the revenues, even though the tax would not be paid if the employees were not there.

Now on pp. 15-16.

Now on p. 16.

Ross, Jane L.

June 20, 1995
Page 7

Now on p. 16.

Your report (p. 26) states that it is “unclear” whether the Urban Institute’s assumption that undocumented aliens do not collect Social Security benefits is reasonable. Two main points are relevant to this discussion. First, any illegal alien who is over age 65 and has been working in the United States long enough to be eligible for Social Security benefits is likely to have qualified for legalization under various provisions of the Immigration Reform and Control Act of 1986 (IRCA). Second, to our knowledge, there is no evidence that undocumented aliens aged 60 and older are collecting non-negligible amounts of Social Security. Unless there is evidence that such fraud exists, our assumption is reasonable.

Job Displacement

Now on pp. 16-17
and 31.

As noted earlier, we generally agree with your report’s discussion of the displacement of workers by illegal aliens (pp. 27–28). Appendix III, beginning on p. 43, clearly states that the GAO’s has concluded that Huddle’s assumptions about displacement costs are too high. We recommend moving this strong conclusion to the main body of the report. We would also note that the Urban Institute assertion that job loss caused by undocumented aliens is probably offset by job creation directly or indirectly by undocumented aliens is completely consistent with all mainstream studies on this topic, as well as the GAO conclusions. (See also discussion above regarding indirect costs and benefits.)

Local Revenues

Now on p. 18.

The Urban Institute’s revenue estimate includes all sales tax revenue, but only that share of property tax estimated to be attributable to residential property. Your report (p. 30) slightly misstates our assumptions. Furthermore, the Urban Institute’s property tax estimates discount revenues collected on rental property, effectively assuming that immigrants do not own rental property. These assumptions account for part of the difference between Huddle’s estimates and the Urban Institute’s.

Education Estimates

Although your report did not treat estimates of expenditures for education of the children of illegal aliens as a separate item, we include some separate comments, because this component of expenditures is the largest single item in all sets of estimates. Our estimates of education costs are significantly lower than Huddle’s. We have written extensively on this topic (Clark et al. 1994; Clark 1994) and our methodology has been endorsed by OMB, GAO (1994), and the State of California (Romero et al. 1994), among others.

The method we use involves estimating four factors, which are multiplied together: the size of the illegal alien population; the proportion of illegals who are of school age; the proportion of the school-aged illegal alien population enrolled in school; and the average cost per enrolled student. Huddle’s method is similar, but we differ in how the factors are estimated. Because of the importance of these estimates, we believe that your report should delve further into the methods and the assumptions Huddle uses. Three examples illustrating the problems with his estimates are particularly noteworthy:

Ross, Jane L.

June 20, 1995
Page 8

- Huddle's enrollment rates are undoubtedly too high because he bases his estimates on data for Asian/Pacific Islanders and Hispanics in Los Angeles County, a group that includes not only undocumented aliens, but natives and legal immigrants — groups which are likely to have higher enrollment rates than illegal aliens (ISD 1992: 62). As a State of Texas report states, "A large portion of the undocumented children age[d] 14–17 come to the U.S. with the intent to work, and not to attend school. Additionally, undocumented children are drawn away from U.S. schools to work as they grow older. Thus older children have lower [enrollment] rates." The report also states that enrollment among undocumented alien children may be low due to "migration by parents, and lower enrollment rates during their first year in the U.S." (Texas Office of Immigration and Refugee Affairs 1993: unpagged).
- Huddle's estimates of the number of undocumented aliens in public school are too high because he applies public school enrollment rates for individuals aged 5–17 (ISD 1992:62)⁶ to the population aged 5-19. In other words, he assumes that 18- and 19-year olds are just as likely to be in school as children aged 5–17. According to Census data, this is not true and, as the quotation from the Texas Office of Immigration and Refugee Affairs suggests, it is especially likely to be untrue for undocumented aliens.
- Huddle's estimate of average student costs are too high because he makes a calculation error. Huddle bases his enrollment estimates on National Center for Education Statistics (NCES) data on the number of students *enrolled in the fall*. However, his estimate of average per pupil costs is based on NCES data on average expenditure per pupil *in average daily attendance*. Using expenditure per student in average daily attendance is inconsistent and, furthermore, inflates cost estimates because the average cost per student in average daily attendance is higher than the average cost per student enrolled in the fall.
- Your report discusses the issue of mean versus marginal costs of government services (p. 24). This argument can also be applied to the costs of public education. Increasing the number of students in a school district by 5 percent does not necessarily raise total education costs by 5 percent because many costs — administration, libraries, etc. — will not increase by 5 percent; others may, however, increase more.

Other General Points

We have a number of other general and specific comments that do not fall under the major headings listed above, so we include them here:

⁶ The ISD rates are calculated using 5-17 as the age range for public school attendance: "School participation rates, which took into account drop out rates, were estimated by comparing the age 5–17 census population for 1990 with the 1989–90 public school enrollment figures" (ISD 1992:62).

Now on p. 15.

Ross, Jane L.

June 20, 1995
Page 9

Now on p. 10.

Now on p. 20.

Now on pp. 17-18,
20 and 21.

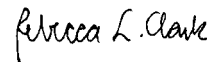
- The report states (p. 17) that “one or more studies” use a particular technique. It would be a good idea to explain which techniques are used in Urban Institute reports and which are used by Huddle.
- The report recommends (p. 33) gathering direct information about undocumented aliens by directly collecting information about undocumented aliens. The example given is public primary and secondary school students. All researchers in this field wish we would get direct measures of characteristics of undocumented aliens. However, while we were doing research on public education costs of undocumented aliens for the Department of Justice and the Office of Management and Budget, we were told that there are legal constraints on asking the legal and immigration status of public school students. Furthermore, it is likely that there would be a great deal of misreporting of status in this type of survey. A short discussion of the problems likely to arise when trying to survey school children should be mentioned. It should also be mentioned that small scale, intensive surveys of a particular area will not give researchers accurate information about the overall impacts of undocumented aliens in the United States. From state to state, the characteristics of undocumented aliens differ greatly; among the characteristics that differ are country of origin, method of entry (illegal border crossing versus remaining when the authorized period of stay has expired), and share of the state’s population.
- We heartily concur with your calls for better data on illegal aliens — their numbers, age distribution, labor force participation rates, tax compliance, and school enrollment (p. 29, 34, and 36). To this list, we would add the need for better data on the geographic distribution of the illegal alien population, across states, counties, and cities.

We again thank you for the opportunity to provide comments on the proposed report. In addition to our comments given above, systematic analyses of Huddle’s estimates can be found in “Immigrants and Taxes: A Reappraisal of Huddle’s ‘The Cost of Immigrants’” by Jeffrey S. Passel (1994) and “The Costs of Providing Public Assistance and Education to Immigrants” by Rebecca L. Clark (1994).

Sincerely,



Jeffrey S. Passel



Rebecca L. Clark

Ross, Jane L.

June 20, 1995
Page 10

REFERENCES

- Chavez, Leo R. 1991. *Shadowed Lives: Undocumented Immigrants in American Society*. Florida: Holt, Winston, and Rinehart.
- Clark, Rebecca L. 1994. "The Costs of Providing Public Assistance and Education to Immigrants." Policy Discussion Paper PRIP-UI-34, Program for Research on Immigration Policy. Washington, D.C.: The Urban Institute, August.
- Clark, Rebecca L. and Jeffrey S. Passel. 1993. "How Much Do Immigrants Pay in Taxes? Evidence from Los Angeles County." Policy Discussion Paper PRIP-UI-26, Program for Research on Immigration Policy. Washington, D.C.: The Urban Institute, August.
- Clark, Rebecca L., Jeffrey S. Passel, Wendy N. Zimmermann, and Michael E. Fix. 1994. *Fiscal Impacts of Undocumented Aliens: Selected Estimates for Seven States*. Washington, D.C.: The Urban Institute, September.
- Fernandez, Edward and J. Gregory Robinson. 1994. "Illustrative Ranges of the Distribution of Undocumented Immigrants by State." Unpublished report. Washington, D.C.: U.S. Bureau of the Census, April.
- Fix, Michael E. and Jeffrey S. Passel. 1994. "Immigrants and Welfare: Setting the Record Straight." *Public Welfare* 52 (2, Spring): 6-15.
- General Accounting Office (GAO). 1994. *Illegal Aliens: Assessing Estimates of Financial Burden on California*. Report GAO/HEHS-95-22. Washington, D.C., November.
- Huddle, Donald. 1993. "The Costs of Immigration." Washington, D.C.: Carrying Capacity Network, revised July.
- Huddle Donald. 1994a. "The Net National Costs of Immigration in 1993." Washington, D.C.: Carrying Capacity Network, update June 27.
- Huddle Donald. 1994b. "A Critique of the Urban Institute's Claims of Cost Free Immigration: Huddle's Findings Confirmed." Washington, D.C.: Carrying Capacity Network, June 27.
- Los Angeles County Internal Services Division (ISD). 1992. *Impact of Undocumented Persons and Other Immigrants on Costs, Revenues and Services in Los Angeles County*. Los Angeles, Cal., November 6.
- Passel, Jeffrey S. 1994. "Immigrants and Taxes: A Reappraisal of Huddle's 'The Cost of Immigrants'." Policy Discussion Paper PRIP-UI-29, Program for Research on Immigration Policy. Washington, D.C.: The Urban Institute, January 1994.
- Romero, Philip J. et al. 1994. *Shifting the Costs of a Failed Federal Policy: The Net Fiscal Impact of Illegal Immigrants in California*. Sacramento, Cal.: California Governor's Office of Planning and Research and California Department of Finance, September.

Appendix V
Comments From the Urban Institute

Ross, Jane L.

June 20, 1995
Page 11

Texas Office of Immigration and Refugee Affairs. 1993. *Estimated Costs for the Undocumented Population*. Memorandum to interested parties. Austin, Tex.: State of Texas Department of Human Services, September 17.

Warren, Robert. 1994. "Estimates of the Unauthorized Immigrant Population Residing in the United States, by Country of Origin and State of Residence: October 1992." Paper presented at "California Immigration 1994," a seminar sponsored by the California Research Bureau in Sacramento. Washington, D.C.: U.S. Immigration and Naturalization Service, April 29.

Comments From Donald Huddle

RICE UNIVERSITY
DEPARTMENT OF ECONOMICS

June 15, 1995

Mr. Andrew Sherrill
United States Accounting Office
Washington, D.C. 20548

Dear Mr. Andrew Sherrill:

Thank you for the opportunity of reviewing the GAO report regarding illegal immigration costs in your letter of May 31, 1995. My comments are as follows:

ISSUE 1: Size of the illegal alien population. The GAO seems to settle upon the 4 million figure based upon the Warren report for the INS for 1994.

This is more likely a conservative lower boundary of the illegal alien population. As discussed both in my "Critique of the Urban Institute's Claims of Cost-Free Immigration" and the Statistical Appendix to this report, a total of 5.4 million for 1994 based upon earlier Census Bureau reports and INS reports is equally reasonable. The Center for Immigration Studies in its "The Costs of Immigration: Assessing a Conflicted Issue (**Background**er No. 2-94, Sept. 1994) agrees that a 4.8 million total for 1992 was agreed to have been within the range of both Census and INS estimates. " Census estimates of illegal immigrants in 1990 ranged to a high of 4.5 million, a figure which by 1992 would reach 4.9 to 5.1 million depending upon whether Census (200,000) or INS estimates (300,000) of subsequent annual growth are used. The Center considers the estimate of 4.8 million defensible for cost estimates in 1992. It also agrees that a valid case can be made for including cost estimates associated with the estimated 550,000 citizen children of illegal immigrants in the 4.8 million estimate" (CIS, 2-94, p. 13).

For more details see my Critique and Statistical Appendix above.

ISSUE 2: Do the initial Huddle study and the Urban Institute study differ primarily in their estimates of displacement costs and revenues from illegal immigrants.?

This is only comparatively true. Direct total program costs differ by 14% or \$1.235 billion. This difference is significant dollar wise. Moreover, individual categories differ by quite a bit more than this percentage wise, but there are some which are partial offsetting. It is true, however, that program costs, excepting displacement, were closer than were revenues.

Appendix VI
Comments From Donald Huddle

ISSUE 3: Are some illegal aliens unable to collect social security because an individual must have obtained a valid SS number to receive credit for work performed ?

Yes, but this number may be much smaller than you would believe since illegal aliens have demonstrably collecting social security for some years. Since breeder documents such as birth certificates have been out of control for some time, there has been no effective limit on the collection of social security other than qualifying for the 40 necessary quarters. Recent data collected under the freedom of information act showed that the SS administration itself has given about 5 million supposedly "non-working" social security numbers to aliens who have in fact been using them to work and contribute to social security. All of these are "good" numbers.

ISSUE 4: It is true that all studies relied partly on indirect approaches to determine costs and also revenues. It is also true that data on the illegal population is less complete than that of the legal population. But it is also true that a large amount of survey data beginning with the North and Houston study has been collected from past survey and field studies much of which is consistent with the Huddle studies though much less so with the Urban Institute findings.

The number of studies is quite extensive and I cannot hope to even summarize them here. But they include both the L.A. study and the San Diego studies cited by the GAO report as well as an earlier survey of the literature by Roger Conner: *Breaking Down the Barriers: The Changing Relationship Between Illegal Immigration and Welfare*, FAIR Immigration Paper IV, Sept. 1982, pp. 41. A more recent study which showed extensive use of welfare by illegal immigrants was recently published by the Rand, Center for Research on Immigration Policy, *Surveying Immigrant Communities, 1994*, pp. 156. This study showed extensive use of public services and welfare by Salvadoran illegals in Los Angeles, in fact, greater than the use coefficients generally used in the Huddle study itself. Both of the extensive surveys in Los Angeles and San Diego largely verify the illegal alien public service usage rates of the Huddle study and its update which was also consistent with 1990 Census data.

Given that the data are not as thorough or deep as one would like, they still constitute a substantial indication of illegal alien use of public services and welfare including the use of fraud with which to obtain them. Therefore, I do not believe that your report is correct when it states that "...the reasonableness of many of their assumptions are unknown". They are, in truth, not absolutely known, but this differs a great deal from the statement in your report which is too negative and agnostic.

ISSUE 5: Your report states that the studies are difficult to compare because of the range of costs and revenues they contain. Unfortunately, the GAO has not availed itself of the opportunity to use the updated 1994 Huddle report and the accompanying critique of UI to make such a comparison. Nor has it done so with the 1994 CIS report which largely corroborated the updated Huddle study while finding very large discrepancies in the Urban Institute report. This is especially true by implication for the illegal net costs since CIS is in close agreement with the size of this population with the Huddle update, but less so for legal immigration.

I will not go into details here since the GAO has chosen not to evaluate the available material.

Appendix VI
Comments From Donald Huddle

Now on p. 7.

ISSUE 6: The GAO report states on page 12 that "responding to the Urban Institute's criticisms, Huddle subsequently produced an updated estimate for 1993 that was "even" higher than his initial estimate -- \$19.3 billion.

The use of the word "even" seems to imply that the original estimate must have been too high. In fact, the careful basis of the new estimates and the test it constituted of the Urban Institute's claims goes unmentioned. It is particularly important to mention that the Urban Institute had originally included revenues of \$28.8 billion in their report which were either unjustified or undebited - social security, unemployment compensation, fuels, vehicles taxes and fees.

When these items alone are adjusted and/or appropriately debited the small deficit for illegal immigrants grows substantially.

Now on p. 9.

ISSUE 7: On page 15 the GAO report states that the difference in the net costs of the Huddle update are due primarily to \$10 billion in direct costs that were not included in either his initial study or the UI study.

Actually, some of the greatest direct cost increases were for updated costs which had already been estimated in the 1993 study. For example, public education K-12: over \$3 bill increase; bilingual ed etc. almost \$800 mil.; and many other categories went up by a great deal % wise. True, new categories including those which included citizen children expanded the categories and added a great deal to costs. As well, county/city expenditures increased significantly due to expansion of service costs considered.

However, \$7.5 billion were added in revenues also due this same kind of expansion of categories on the cost side.

Importantly, those same categories which the UI did not debit - social security and gasoline taxes were fully considered on both credit and debit side in my study.

The purpose was to achieve balance and I believe that the update did achieve it including full consideration of the 1990 Census data which were not available during the initial study.

Now on p. 14.

ISSUE 8: On page 15 in note 25 the GAO report states that Huddle's cost estimate for citizen children is difficult to assess because the methodology is not explained.

The updated Huddle study on page 7 Exh. 5 estimated 1,275,000 citizen children of illegals in the 0-30 range in 1993. Of these 557,940 were estimated to be in the 5 to 19 age range. 80% of these were assumed to be in school. On page 7 we also source the L.A. County Impact study which was sourced to estimate that 35.71% of illegals had citizen children (page 3, Executive Summary) we conservatively reduced this to 25% to obtain the 1,275,000 figure for ages 0-30 of whom 43.76% were in the age range 5 to 19 using population distribution data. The L.A. Study demographic data is discussed in its report on pages 88-92. It is, in my opinion, the best data available.

Appendix VI
Comments From Donald Huddle

These data seem very reasonable, certainly after my downward adjustment. An alternative estimate based on immigrant birth rates would be even higher. See Virginia Abernathy, *Population Politics*, Plenum Press, 1993 on immigrant fertility rates. The CIS in its 1994 Backgrounder already mentioned examined this same question and agreed that my estimates on citizen children were reasonable.

The inclusion of citizen children is appropriate precisely because my study is attempting to assess overall fiscal impact of illegal immigration. Although revenue from citizen children ages 19 and over would be appropriate to consider so would their costs. All data indicates that the ethnic breakdowns of citizen children which are largely Hispanic and Mexican is a low income, high poverty, high school dropout, high welfare use population. The inclusion of costs and revenues for this citizen child adult population could only result in higher net public service costs. It would, of course, be quite inappropriate to include only the tax revenues of this population as is suggested in the GAO report in note 25 on page 23 while totally ignoring their costs.

I cannot think of any good reason to consider only the population of those residing unlawfully in the U.S. and not their citizen children if we wish to be comprehensive.

ISSUE 9: As the GAO report states the updated Huddle study includes over \$5.3 billion in additional costs for miscellaneous public services not included in the original study. It does not note, however, that the inclusion of these primarily city service costs also included the added revenues paid to cities which were part of the \$7.5 billion increment in revenues in the updated study.

The updated Huddle study attempted to expand categories of both tax revenue and of direct service costs. I agree with the GAO report that there are other state and federal service cost categories which should be included. This is part of the plan for the 1995 update of national costs. Those mentioned in note 27 are among those on the list for inclusion.

The point about using marginal costs is certainly good theory since marginal costs can be either less than or greater than average costs. This point is true, however, not only for Huddle's updated study, but also for the Urban Institute study which used average costs.

If the GAO staff would examine the Huddle critique of the UI study and its accompanying Statistical Appendix, it would find that a number of categories have actually been examined for average and the implied marginal cost changes for both education and for county/city services. It was found that average costs for both have been rising over time in immigrant states which supports rising, not falling, marginal costs.

**Appendix VI
Comments From Donald Huddle**

ISSUE 10: The GAO report states that since the Social Security administration does not have data on the amount of benefits paid to illegal aliens that it is unclear whether the assumption that the amount paid out was zero as claimed by the UI.

Since it is clear that there is absolutely no obstacle to an illegal alien with a working social security number collecting social security, the assumption that the payout is zero is bordering on the absurd. Moreover, the 1990 Census itself indicates that a large number of non-citizen immigrants receive social security. Finally, earlier surveys such as that by Roger Conner (see above) strongly suggest that illegal immigrants are receiving social security. My own surveys of the illegal population also indicate recipiency by illegals of social security. The only real question is "how much" they are receiving not whether they are receiving social security.

ISSUE 11: On page 26 the GAO report states that Huddle's rationale for using the present value of the future portion of social security benefits illegal aliens will receive is the belief that the federal government is incurring a substantial obligation for future benefits to illegal aliens. GAO claims that the data needed to develop a reasonable estimate of the amount of social security benefits illegal aliens will collect in the future are not available.

I disagree with GAO's assessment. Survey after survey tells us that the stock of illegal aliens working in the U.S. is fairly stable even while it is growing quite aside from the to and fro movements along the border itself. We know that this stable and growing illegal alien population is working and that a large proportion has working social security numbers. My studies in the Houston metro area indicate that at least 75% of the illegal working population has working social security numbers often derived from false birth certificates and other false breeder documents including many social security numbers actually given out as non-work numbers by the social security administration itself to illegals and to those who are working illegally. No remedial action is being taken or anticipated either by the social security administration or the INS.

The Urban Insititute wishes to have it both ways. Illegals contribute large sums to social security, but never collect. My approach is balanced. Illegals both contribute and about 3/4's will collect since there is absolutely no legal bar to their doing so.

The 1990 Census is suggestive in this regard. 1.7 million immigrant households of 7.7 million total immigrant households (22%) received an average of \$7,601 in social security income as of 1990. Some 383,000 non-citizen immigrants (11%) received \$6,152 yearly in social security income.

Also 92,000 Mexican non-citizen households received social security income (9.3% of total) compared to 166,000 total Mexican households (11.8% of the total).

Now on pp. 15-16.

Appendix VI
Comments From Donald Huddle

But according to Census data, there were only about 1.3 million male immigrants age 62 and over as of 1990 and 3.2 million of all both sexes, many of whom would be in a household together. Moreover, there were only 360,000 male non-citizen immigrants age 62 and over and 970,000 of both sexes many of whom were in the same household.

Thus, there is not a tremendous difference in citizen and non-citizen social security recipients compared to the total population. Nor do the ratio of male immigrants to social security recipients age 62 and over differ greatly from all immigrants to non-citizen immigrants.

Agreed, perhaps only half of illegal immigrants are recorded in Census data, but the data for non-citizens suggest that illegal aliens as a substantial fraction of non-citizen immigrants and are receiving social security benefits. The fact that the number of social security beneficiaries living abroad in the early 1980's was about 300,000 with only a tiny fraction being natives of the U.S. also strongly suggests that illegal aliens are participating in the social security program as they are legally entitled to do.

ISSUE 11: With regard to displacement costs, the GAO report concludes that Huddle's \$4.3 billion cost estimate is based on a job displacement rate that is inconsistent with research findings on this topic. But the GAO report misunderstands the concept of displacement, and it has both overlooked and misinterpreted displacement research findings including those by Huddle.

There are a number of important corrective points to be made on this topic.

1st: The GAO seems to misunderstand the very concept of displacement being used in the Huddle studies as well as in other carefully done studies.

The concept of "job displacement" should be understood in its several dimensions. As careful researchers use the term it means, first, that U.S. workers are replaced by undocumented workers, that is literally thrown out of work; second, that U.S. workers remain unemployed because they are not informed of job openings dominated by immigrant labor; third, that because of the presence of undocumented labor, U.S. job seekers, teenagers who have never worked before cannot find entry-level jobs in motels, restaurants, car washes, warehouses, assembly lines, garment factories, clean-up crews, construction, landscaping, and older experienced low-skill Americans are unable to obtain jobs already filled by illegal workers. Displacement also has a fourth manifestation. U.S. workers and job applicants, facing competition from cheap alien labor often migrate elsewhere in search of jobs and better labor standards. (see Huddle, Corwin, and MacDonald *Illegal Immigration: Job Displacement and Social Costs*, American Immigration Control Foundation, 1985).

The GAO report recognizes only the first type of displacement and ignores the other three types which have been well documented by Huddle and Corwin (type 3) , Philip Martin (type

Appendix VI
Comments From Donald Huddle

two in *Illegal Immigration and the Colonization of the American Labor Market*, CIS Paper, Jan. 1986), and Walker, Ellis, and Barf (type 4 in "Linked Migration Systems: Immigration and Internal Labor Flows in the U.S. *Economic Geography*, 1993). In the latter study the principle finding is:

"Internal net migration of unskilled blue-collar workers is strongly and negatively related to the number of immigrants in an SMSA. The coefficient predicts a net loss of one unskilled blue-collar worker for every seven immigrants to an SMSA". (p. 243)

After adjustment for labor force participation, this displacement rate becomes one job lost for about every five illegal immigrant workers - very close to the Huddle displacement rate. The Walker, Ellis, and Barf findings are also supported by the research of Professor Frey of the University of Michigan.

Dr. Philip Martin, on the other hand, analyzes the pernicious displacement effects of network recruitment: He

"documents the displacement of American workers by illegal immigrants in agriculture, food processing, services and construction, analyzing the processes of network recruiting and subcontracting that lead ultimately to the exclusion of American citizens and legal residents from many work places" (p. 5).

Former Secretary of Labor and immigration researcher Ray Marshall declared as early as 1979 that **unemployment could be reduced by one-third** if American workers did not have to compete with illegal immigrants in the work force.

Between 1982 and 1990 I conducted 4 field studies which surveyed over 5,900 unemployed American low-skill workers. Each of these studies showed substantial type 3 displacement impacts of illegal aliens on the U.S. labor force.

The first study in 1982 was of Project Jobs under which the INS deported 5,440 working aliens from 560 work sites in 9 U.S. cities back to Mexico. INS data showed that 7 American workers applied for each job vacated by an illegal alien. Approximately 80% of the job openings were filled with local citizens or legal workers. More jobs would have been filled by citizen/legal workers, but a substantial minority of employers held jobs open for illegal aliens many of whom had returned to their jobs from Mexico within a month after deportation. Others laid off newly hired American workers and rehired illegal aliens. This study showed clearly that many employers prefer to hire illegal aliens rather than citizen/legal resident workers primarily because illegals will work for less pay, under dangerous and substandard labor conditions, and do not require overtime pay, fringe benefits, and workers compensation. In our follow up study, we found that after several months, despite the preference of employers, more than 40% of the 80% of the citizen/legal workers were still employed implying a displacement rate of at least 40%. If Mexican illegals could have been prevented from returning after deportation, the displacement rate would have been much higher than 40 percent.

This study has apparently not been consulted by the GAO report as reported in *Illegal Immigration: Job Displacement and Social Costs* by Huddle, Corwin, and MacDonald in 1985 cited above nor the more recent Huddle study "Dirty Work: Are Immigrants Only Taking Jobs That the Native Underclass Does Not Want?" *Population and Environment*, July 1993.

Appendix VI
Comments From Donald Huddle

The 2nd, 3rd, and 4th studies were all undertaken in the Houston Metro Area where 463 unemployed natives were surveyed in 1982-83, 1985 and 1989-90. Between 85% and 100% of the unemployed said they would take jobs like those in skill and pay currently held by illegal aliens. Of this number, 63% to 90% actually applied for such job openings in the job bank we created from newspaper job advertisements, the Texas Employment Commission and commercial employment agencies. After deducting the number of applicants who were actually hired by employers with our assistance those still attempting to find jobs ranged between 23.1% and 53.1%. Thus, the gross displacement rate ranged between 63% and 90% while the net displacement rate ranged between 23% and 53%. Those who failed the job search requirements in our study ranged from 9.4% to 22.4%, a surprisingly low number.

The study itself clearly indicated a relationship between wages levels and displacement. In general for wage rates at and above \$7 per hour virtually all unemployed, unskilled Americans were willing to work; for wage rates between \$5.25 and \$7 over 80% were willing to work; for wage rates between \$4.25 and \$5.25 over 50% were willing to work; but for less than \$3.25 per hour only 13% were either able economically or willing to work.

This relationship between the wage offer and the willingness to work shows how important wage depression is in raising the displacement rate. Although the costs of wage depression are not included in our study, the \$106 billion in wage depression due to immigration estimated by George Borjas indicates the importance of its influence on American workers willingness to work. At very low wage rates general assistance, unemployment insurance, AFDC, and Medicaid become much more attractive even for those who have a strong work ethic. Thus, an American may simply not be able to support himself/herself in a non-homeless status at extremely low wage rates at or below the established level of poverty set by the U.S. government.

Most early large scale and national studies of illegal immigrant displacement looked only at the impact on all American workers skilled and unskilled. Due to the mixing of unskilled and skilled and professional workers, the displacement effect was positive, but small. Only when particular industries were examined did studies focus on the unskilled categories. During the early 1980's and early 1990's broader studies such as my own were done which did focus on the unskilled and they showed a clear interrelationship between numbers of illegal aliens working and the displacement rate of American low-skill workers ranging between 23% and 90% depending upon the phase of the business cycle. More recent econometric studies such as that by Altonji and Card also clearly indicated the interrelationship of either very high labor displacement and/or very high wage depression between illegal aliens and American unskilled workers depending upon the specification of one of four econometric models (In John Aboud and Richard Freeman, Immigration, Trade and the Labor Market, 1991, p. 221).

Unfortunately, Altonji and Card themselves de-emphasized their own results. But if, instead of reading their concluding comments, one examines the displacement and wage depression coefficients themselves, one finds very strong results.

The GAO report misreads the Altonji-Card econometric results by claiming that none of the coefficients are additive when in fact those differing dependent variables which just indicate different aspects of displacement are additive.

Appendix VI
Comments From Donald Huddle

For example, in the 1980 cross section in Table 7.7, both equation 1: labor force/population and 2: employment/population just indicate two aspects of displacement - the discouraged worker and unemployment when the coefficients are negative. In addition, equation 4: fraction worked last year is also additive to 1 and 2 after an adjustment. The 1980 cross-section therefore indicates total displacement of .243 per 10 percentage point increase in the fraction of immigrants in the 122 SMSA.'s of the study.

The displacement coefficients were even larger in the 1970 cross sections.

These results belie the concluding comment by Altonji and Card that .."we find little evidence that inflows of immigrants are associated with large or systematic effects on the employment or unemployment rates of less-skilled natives" (p. 226).

In their first-differenced equations Altonji and Card have re specified their equations such that wage depression (log earnings/week) which was slightly positive in the 1980 cross section becomes highly negative. Therefore, as we stated above wage depression and labor displacement are closely interrelated. Moreover, wage depression has the same overall effects as does labor displacement, especially in conjunction with geographic displacement where as wage rates fall, labor flows outward (a la Barf et al.) , but this outward flow of native labor is not even measured by the standard econometric models of Altonji and Card and other econometricians. It is an entirely different displacement element which must be added to the Altonji-Card conception and measurement of displacement.

Moreover, the way Altonji and Card specify their own equations tends to minimize displacement effects since we are focusing on relatively small numbers of immigrants in an MSS compared with labor force and employment variables of natives which are much greater in absolute numbers. Thus, if we look at numbers of bodies of natives displaced and immigrants arriving in an SMSA a relatively small number of immigrants have a disproportionate impact on native employment, labor force participation, and fraction worked last year. And the smaller the number of immigrants proportionately in the SMSA the greater the bias here would be in the downward direction.

Parenthetically, one should note that Altonji and Card measure coefficients in conjunction with the population change of illegal aliens not those working as I did in my own studies. Since only about 3/4's of illegals work, after taking into account minors, those in school, the unemployed, wives and mothers and the elderly the Huddle displacement rate of 25 percent becomes only about 19% for the population as a whole.

The selective quote of the current GAO report from the 1986 GAO report on page 45 ..."that the available research was inconclusive because it was limited and suffered from important methodological weakness." However, the conclusion of the 1986 GAO study on which I was a consultant states the result much more positively in another section of its report:

Appendix VI
Comments From Donald Huddle

"Our synthesis of data in 46 studies of possible effects suggest widespread displacement of native or legal workers. We found that although illegal alien workers studies were over-represented by Mexicans from the Southwest, and although many were working in agriculture, illegal workers were found in all major categories of industry and occupation. Their presence in agriculture decreased and in other sectors of the economy increased as they became more settled "(p. 18).

One must wonder why the current GAO report continues to stress the lack of conclusive evidence on displacement when the available evidence on labor displacement and wage depression is much more impressive vis a vis the unskilled than that of its detractors.

I do not know which experts were consulted by the GAO who concurred that displacement is insignificant, as was wage depression presumably, but I doubt that they included those who have the greatest field and institutional experience such as Ray Marshall, Vernon Briggs, Philip Martin, and others I mention in this report.

It has been my experience that studies which are specified correctly, including most importantly a focus on the low-skilled rather than all workers, have found substantial labor displacement and/or wage depression as did the Altonji-Card study despite their own denials. I repeat that labor displacement and wage depression are very close substitutes for one another in terms of their impact upon the low-skill American work force as well as upon the net cost of public services.

The studies cited by the GAO report do not appear to meet these criteria in that they aggregate populations to be studies inappropriately so that the data sample becomes underrepresentative of the low-education, low-skill population. Once this occurs it is not surprising the results show little displacement impact. No well-informed immigration researcher has ever claimed that all blacks, all Hispanics, or the entire U.S. work force is harmed by illegal immigration. In fact, due to complementarities between low-skill illegals and skilled natives there can be clear gains for skilled natives when illegal immigrant numbers increase.

But what is also being ignored here is the impact on income distribution. As George Borjas showed in his recent article in The Journal of Economic Perspectives, immigration likely results in wage depression of \$114 billion among low-skilled natives while it aids capitalists by \$120 billion per year. The result is a substantial worsening of the income distribution of the U.S. which has reached its worst point since it was first measured if we focus on the distribution prior to government redistribution through welfare programs. This result cannot be ignored in our deliberations.

Donald L. Huddle
Professor Emeritus
of Economics
Rice University

GAO Contacts and Staff Acknowledgments

GAO Contacts

Cynthia M. Fagnoni, Assistant Director, (202) 512-7202
Andrew Sherrill, Evaluator-in-Charge, (202) 512-7252

Acknowledgments

In addition to those named above, the following persons also made important contributions to this report: Deborah A. Moberly, Evaluator; Alicia Puente Cackley, Senior Economist; Steven R. Machlin, Senior Social Science Analyst; and William McNaught, Assistant Director, Office of the Chief Economist.

Bibliography

Altonji, Joseph G., and David Card. "The Effects of Immigration on the Labor Market Outcomes of Less-skilled Natives." Immigration, Trade and the Labor Market, John Abowd and Richard B. Freeman, eds. Chicago: University of Chicago Press, 1991.

Bean, Frank D., and others. "Undocumented Migration to the United States: Perceptions and Evidence." Population and Development Review, Vol. 13, No. 4 (1987), pp. 671-90.

Carrying Capacity Network. A Critique of the Urban Institute's Claims of Cost Free Immigration: Huddle Findings Confirmed. Washington, D.C.: 1994.

Clark, Rebecca L. The Costs of Providing Public Assistance and Education to Immigrants, PRIP-UI-34. Washington, D.C.: The Urban Institute, 1994.

Clark, Rebecca L., and others. Fiscal Impacts of Undocumented Aliens: Selected Estimates for Seven States. Washington, D.C.: The Urban Institute, 1994.

Enchautegui, Maria E. "Effects of Immigration on Wages and Joblessness: Evidence from Thirty Demographic Groups." Washington, D.C.: The Urban Institute, 1994.

Fernandez, Edward W., and J. Gregory Robinson. "Illustrative Ranges of the Distribution of Undocumented Immigrants by State," technical working paper no. 8. Washington, D.C.: U.S. Bureau of the Census, Population Division, 1994.

Fix, Michael, and Jeffrey S. Passel. Immigration and Immigrants: Setting the Record Straight. Washington, D.C.: The Urban Institute, 1994.

Greenwood, Michael J., and Gary L. Hunt. "Economic Effects of Immigrants on Native and Foreign-Born Workers: Complementarity, Substitutability, and Other Channels of Influence." Washington D.C.: U.S. Department of Labor, Bureau of International Labor Affairs, Division of Immigration Policy and Research, 1991.

Greenwood, Michael J., and John McDowell. "The Labor Market Consequences of U.S. Immigration: A Survey," Working Paper 1, 1990. Washington, D.C.: U.S. Department of Labor, Bureau of International Labor Affairs, Division of Immigration Policy and Research.

Bibliography

Huddle, Donald. The Net National Costs of Immigration Into the United States: Illegal Immigration Assessed. Washington, D.C.: Carrying Capacity Network, 1995.

_____. The Net Costs of Immigration to Florida. Washington, D.C.: Carrying Capacity Network, 1994.

_____. The Net National Costs of Immigration in 1993. Washington, D.C.: Carrying Capacity Network, 1994.

_____. The Net Costs of Immigration to Texas. Washington, D.C.: Carrying Capacity Network, 1994.

_____. The Costs of Immigration. Washington, D.C.: Carrying Capacity Network, 1993.

_____. The Net Costs of Immigration to California. Washington, D.C.: Carrying Capacity Network, 1993.

_____. "Immigration and Jobs: The Process of Displacement." The NPG Forum (May 1992), pp. 1-5.

Los Angeles County Chief Administrative Office. Updated Revenues and Costs Attributable to Undocumented Aliens. Los Angeles: 1991.

Los Angeles County Internal Services Department. Impact of Undocumented Persons and Other Immigrants on Costs, Revenues and Services in Los Angeles County. Report prepared for Los Angeles County Board of Supervisors, Nov. 6, 1992.

Lyndon B. Johnson School of Public Affairs. The Use of Public Services by Undocumented Aliens in Texas: A Study of State Costs and Revenues, Policy Research Report, No. 60. Austin, Texas: Lyndon B. Johnson School of Public Affairs, University of Texas, 1984.

Parker, Richard A., and Louis M. Rea. Illegal Immigration in San Diego County: An Analysis of Costs and Revenues, report to the California State Senate Special Committee on Border Issues. San Diego: 1993.

Passel, Jeffrey S. Immigrants and Taxes: A Reappraisal of Huddle's "The Cost of Immigrants". Washington, D.C.: The Urban Institute, 1994.

Passel, Jeffrey S., and Rebecca L. Clark. How Much Do Immigrants Really Cost? A Reappraisal of Huddle's "The Cost of Immigrants." Washington, D.C.: The Urban Institute, 1994.

Rea, Louis M., and Richard A. Parker. A Fiscal Impact Analysis of Undocumented Immigrants Residing in San Diego County, report by the Auditor General of California, C-126. Sacramento, California: 1992.

Romero, Phillip J., and others. Shifting the Costs of a Failed Federal Policy: The Net Fiscal Impact of Illegal Immigrants in California. Sacramento, Calif.: California Governor's Office of Planning and Research, and California Department of Finance, 1994.

Taylor, Lowell J., and others. "Mexican Immigrants and the Wages and Unemployment Experience of Native Workers," Policy Discussion Paper PRIP-UI-1, Program for Research on Immigration Policy. Washington, D.C.: The Urban Institute, 1988.

Texas Governor's Office of Immigration and Refugee Affairs. Estimated Costs for the Undocumented Population. Austin, Texas: 1993.

U.S. Commission on Immigration Reform. U.S. Immigration Policy: Restoring Credibility. Washington, D.C.: U.S. Government Printing Office, 1994.

U.S. General Accounting Office. Illegal Aliens: Assessing Estimates of Financial Burden on California (GAO/HEHS-95-22). Washington, D.C.: 1994.

U.S. General Accounting Office. Benefits for Illegal Aliens: Some Program Costs Increasing, But Total Costs Unknown (GAO/T-HRD-93-33). Washington, D.C.: 1993.

U.S. General Accounting Office. Illegal Aliens: Limited Research Suggests Illegal Aliens May Displace Native Workers (GAO/PEMD-86-9BR). Washington, D.C.: 1986.

Vernez, Georges, and Kevin McCarthy. The Fiscal Costs of Immigration: Analytical and Policy Issues, DRU-958-1-IF, background paper presented at "The Public Costs of Immigration: Why Does It Matter?" Rand, Center for Research on Immigration Policy, Santa Monica, California, 1995.

Bibliography

Warren, Robert. "Estimates of the Unauthorized Immigrant Population Residing in the United States, by Country of Origin and State of Residence: October 1992." Unpublished report, U.S. Immigration and Naturalization Service. Washington, D.C.: 1994.

Winegarden, C.R., and Lay Boon Khor. "Undocumented Immigration and Unemployment of U.S. Youth and Minority Workers: Econometric Evidence." The Review of Economics and Statistics, Vol. 73, No. 1 (1991), pp. 105-112.

Related GAO Products

Illegal Aliens: Assessing Estimates of Financial Burden on California
(GAO/HEHS-95-22, Nov. 28, 1994).

Benefits for Illegal Aliens: Some Program Costs Increasing, But Total Costs Unknown (GAO/T-HRD-93-33, Sept. 29, 1993).

Illegal Aliens: Despite Data Limitations, Current Methods Provide Better Population Estimates (GAO/PEMD-93-25, Aug. 5, 1993).

Trauma Care Reimbursement: Poor Understanding of Losses and Coverage for Undocumented Aliens (GAO/PEMD-93-1, Oct. 15, 1992).

Undocumented Aliens: Estimating the Cost of Their Uncompensated Hospital Care (GAO/PEMD-87-24BR, Sept. 16, 1987).

Illegal Aliens: Limited Research Suggests Illegal Aliens May Displace Native Workers (GAO/PEMD-86-98BR, Apr. 21, 1986).

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are \$2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20884-6015

or visit:

Room 1100
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC

Orders may also be placed by calling (202) 512-6000 or by using fax number (301) 258-4066, or TDD (301) 413-0006.

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (301) 258-4097 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

**United States
General Accounting Office
Washington, D.C. 20548-0001**

**Bulk Mail
Postage & Fees Paid
GAO
Permit No. G100**

**Official Business
Penalty for Private Use \$300**

Address Correction Requested



