Immigration: Wrong Answer for Social Security

By John Attarian

EXECUTIVE SUMMARY

The Social Security program, which taxes labor incomes to pay benefits to retirees, survivors of deceased Social Security taxpayers, and disabled persons, will face a crisis as the large Baby Boom generation retires and collects benefits, but is supported by the smaller generation of taxpayers born after 1965. With the number of taxpayers supporting each beneficiary declining, tax rates mandated by current law will not suffice to pay all benefits mandated by current law. By 2041, Social Security will be unable to pay full benefits on time.

Because this crisis is driven by the demographics of an aging population, supporters of immigration such as Julian Simon and Ben Wattenberg have argued that increasing immigration will significantly strengthen Social Security's finances, perhaps even solve the problem altogether. On an intuitive level, this is an obvious answer: if the essential problem is an older beneficiary population growing faster than the population of younger taxpaying workers, the thing to do is to add more younger workers.

Some opponents of immigration retort that the Social Security crisis is not real, arguing that only minor changes in taxes and benefits will suffice to keep the program solvent, or that the total dependency ratio (the ratio of the population of children and elderly to the population of working-age adults) will be little changed by the retirement of the Baby Boomers because the cohort of children will be smaller. Neither of these arguments is tenable. Eliminating Social Security's long-term actuarial deficit through changes in taxes and benefits will still leave large annual cash deficits in the distant future, which must be covered by the Treasury. And since Social Security is primarily a program for supporting the elderly, the only ratio that really matters is that between the elderly and the working-age adult populations; the children are irrelevant.

So the Social Security crisis is real. But it does not follow that immigration is the cure. Immigrationists, drawing on a 1998 study by Stephen Moore, claim that immigrants are already "keeping Social Security afloat." Moore argued that net immigration (immigration minus emigration) of 800,000 a year was already contributing $1,934 billion (1998 dollars) to Social Security's revenues over the 1998-2072 period, and that an increase of annual net immigration to one million would raise immigration's revenue contribution to $2,418 billion.

Therefore, immigration would be crucial to any solution to Social Security's problems. But Moore's study rests on a confusion of three totally unrelated concepts: unfunded liability, long term actuarial deficit, and the sum of inflation- adjusted revenues. It also employs an unsound method,applying results obtained from the Social Security actuaries' immigration sensitivity test, which rests on present-value figures, to summed

inflation-adjusted tax revenues. Finally, while Moore's figures for immigration's alleged contributions to Social Security's revenues look impressive in isolation, they collapse into insignificance when stood beside Social Security's inflation-adjusted total revenues for 1998-2072 of $53,752 billion, total outlays of $70,086 billion, and deficit of -$16,334 billion. Increasing annual immigration to one million would increase revenue by 0.9 percent and reduce the deficit by just 3.0 percent. The inescapable conclusion is that immigrants are hardly "keeping Social Security afloat,' and that massive increases in immigration will not do much to save it. Other claims by immigration advocates about immigration's contributions to Social Security also collapse when put in context. For example, the Urban Institute claimed that illegal immigrants paid $2.7 billion in Social Security taxes in 1990. This comes to 0.91 percent of the $296.1 billion in payroll tax revenues for 1990. In that year Social Security paid $247.8 billion in benefits, or $679 million a day. The illegals' alleged revenue contribution would have covered benefit costs for just four days.

Peter Francese of *American Demographics* maintained that Social Security's problems could be solved if we admitted enough immigrants to keep the ratio of taxpayers to beneficiaries at its current level. It turns out, however, that following this prescription would result in an immigrant flood, with America admitting up to five or six million adult immigrants annually as the Baby Boomers retire. Moreover, immigrants get old, too, and supporting this huge population of immigrant taxpayers when they become Social Security beneficiaries would require another massive wave of immigration. All in all, we would have to more than double our labor force by adding 183.6 million immigrants and their adult children by 2080. That does not take into account elderly immigrants and minor children who, of course, would also arrive.

Ben Wattenberg argued that immigration is "the easy solution to the Social Security crisis" because it immediately increases the population of working age, taxpaying adults. If we doubled our annual net immigration, he argued, it would reduce Social Security's deficit by 28 percent. It turns out that Wattenberg's argument is based on the Social Security actuaries' immigration sensitivity test, in which the assumed level of immigration is changed, all other variables are held constant, and Social Security's long-term actuarial balance is recalculated, in order to see how much difference changing the immigration assumption makes for this figure. The sensitivity test implies that to totally eliminate the long-term actuarial deficit, we would have to quadruple our annual net immigration, to some 3,600,000 a year. The need for such massive doses implies that the immigration medicine is pretty weak. Comparison of the results of the immigration sensitivity test to those for other variables affecting Social Security's long-term actuarial deficit leg., death rates, fertility, growth in real wages) confirms that verdict.

Moreover, Wattenberg's argument is simplistic, because it assumes that immigration has only one, positive effect on Social Security's outlook: immigrants take jobs and pay Social Security taxes. This rests on a shallow and simplistic misuse of the sensitivity test, which holds all other variables in the actuarial calculation constant in order to determine how much varying one assumption matters for the long-term actuarial deficit. In reality, other variables do not hold still. Enormous increases in immigration would, naturally, affect things like labor productivity and wages, and since Social Security is financed by taxes on labor incomes, these will in turn affect Social Security's

revenues. Labor productivity growth and real wage growth improve Social Security's finances. Economic logic and empirical evidence suggest that massive immigration would depress productivity growth, unless the increase in the labor force were matched by an increase in the capital stock, which would require levels of investment which are impossible to attain. It is clear that enormous augmentation of the labor force would depress wages. The implications of these effects for Social Security revenues are obviously negative. It follows that massively increasing immigration will not necessarily improve Social Security's cash flow much, and may even adversely affect it.

Furthermore, the majority of immigrants have little education and low skills, and work in menial, poorly-paid jobs. Such poor immigrants are necessarily poor Social Security taxpayers, which implies that adding many more of them is unlikely to raise revenue enough to save the program. As for the highly-skilled immigrants who work in the information technology sector, revenue gains from this source are offset by the widespread use of contract labor under the H-1B program whereby no Social Security taxes are paid by the immigrants or their American employers; by the lower salaries paid to immigrant workers as opposed to Americans, which means lower revenues for Social Security; and by displacement of American workers into lower-paying jobs, which also entails revenue losses.

Moreover, the National Research Council's 1997 study on the economic and fiscal impact of immigrants, *The New Americans*, when examined rigorously, does not support the immigrationists' argument that immigrants are a massive net fiscal gain. The study's finding that admitting an additional immigrant has a net present value to federal, state, and local finances of $80,000 (i.e., revenue gains exceed benefit and other costs by $80,000 in today's dollars) obtains over a 300-year time horizon, and depends decisively on an assumption that in 2016 Congress decides to stabilize the ratio of gross federal debt to Gross Domestic Product at the 2016 level by raising taxes and cutting spending, and maintain it there indefinitely. Other examinations of immigration contribution to public finances and to Social Security by professional economists found that immigration's contribution would be small, or that even skill-based immigration would have to be enormously increased to be of help.

The case for increasing immigration to save Social Security, then, is illusory. Moreover, such a massive increase in America's population as this strategy would entail would calamitously overload our environment. Water resources, already strained by our high consumption, would shrivel under the burden. The need for more land to accommodate the far-larger population would collide with the need to cultivate more land in order to feed it. Finally, population growth accounts for virtually all of America's increase in energy use, and immigration is the main force driving population growth. Meanwhile, according to many well-informed petroleum geologists, the world's extraction of conventional oil will probably peak some time in this decade and then go into an irreversible decline. Alternative energy sources are either highly energy-costly to develop, or of only limited use. In that context, massively increasing immigration will be a disaster. Further problems are the risks of Balkanization, increased crime, terrorism at home, and the possibility that nonwhite immigrants would understandably balk at paying taxes to support mostly white American Social Security beneficiaries.

When all these collateral negatives are added to the fictive positive, the only conclusion is that increasing immigration to shore up Social Security is a massively wrong answer.

There are, finally, grave moral problems with the immigration solution to Social Security. It would tax mostly poor immigrants to support more affluent Americans because we lack the courage to put our fiscal house in order and it would leave to our descendants a crime-ridden and Balkanized nation, a crippled economy, and a ruined ecosystem.

CHAPTER ONE:

THE SOCIAL SECURITY CRISIS
AND THE IMMIGRATION TEMPTATION

As numerous observers have warned for years, some time n the next few decades Social Security s costs will start exceeding its revenues, leaving it unable to pay all benefits mandated under current law. Controversy has been raging about whether Social Security really is headed for trouble, and if so, what should be done about it. Some supporters of immigration advocate it as a solution for Social Security's problems.

Social Security is an extremely important part of American life, so the issue of whether or not it will face a financial crisis demands careful examination. So do the various proposals advanced to strengthen or revise the program. This monograph critically examines the claims made on behalf of immigration as a cure for Social Security and finds them wanting. Indeed, pursuit of greatly increased immigration to "save Social Security" would be a national disaster.

Social Security and immigration are important issues for all Americans. Because Social Security is a complicated program and because the controversy involves economics and demographics, we necessarily have to deal with many economic and demographic numbers and calculations. To make this study accessible to as wide an audience as possible, readers are walked through important calculations, formulas are explained, and sample calculations are shown.

What is Social Security?

Created by the Social Security Act of 1935, the federal governments Old-Age, Survivors and Disability Insurance (OASDI) program, popularly known as Social Security, pays monthly benefits to retired workers, widows and orphans of deceased workers, and workers with disabilities and their dependents. Social Security is financed by payroll taxes: taxes on the labor incomes of employees (which are matched dollar for dollar by taxes paid by their employers) and on the labor incomes of the self-employed. In other words, Social Security is a program whereby workers support various categories of dependent persons, mostly retirees.

Social Security operates on a "pay-as-you-go" basis: current revenue is used to cover current costs. Tax rates are set at levels deemed high enough to meet costs and create a contingency fund, called the Social Security trust fund, to cover an unexpected increase in costs or decline in revenues. The obvious implication of pay-as-you-go financing is that just as today's elderly are supported by today's taxpayers, today's taxpayers will be supported by future younger generations—that is, if these young taxpayers are willing to pay the OASDI taxes.

Social Security taxes are levied on labor income, up to a ceiling called the maximum taxable income, which is increased automatically each year to reflect wage growth.

In 2002, the maximum taxable income was $84,900. In other words, one's labor income up to $84,900 is subject to Social Security tax, but labor income above this amount is not. This makes the Social Security tax regressive (that is, falling hardest on the lowest incomes), because all of a low labor income is taxable, but only a portion of a labor income exceeding $84,900 is. Under current law, employees pay a Social Security tax rate of 6.2 percent on their income, matched dollar for dollar by their employers, for a total of 12.4 percent. The self-employed pay a Social Security tax rate of 12.4 percent.[1]

As the Social Security law requires, if Social Security's tax revenues exceed its costs, the Treasury spends the surplus revenue on general costs of government and issues the Social Security trust fund an equivalent amount of Treasury debt. The bonds earn interest which is paid semiannually in the form of additional bonds.

Social Security is now the largest program the federal government operates, and the largest single item in the federal budget, ahead of even national defense and interest on the national debt. In calendar year 2001, Social Security had a total income of $602.0 billion, including $516.4 billion in taxes on labor incomes. It spent $438.9 billion, or $1 .2 billion a day, almost all of it on benefits. Of its benefit spending, $372.3 billion went for old-age and survivors' benefits, and $59.6 billion for disability benefits.[2]

Actuarial Analysis: Some Key Concepts

Because Social Security is so large and important, its current and likely future financial status is watched closely by the federal government, so as to ensure its ability to pay benefits on time and to avoid having to make painful increases in taxes and cuts in benefits. Every year the Social Security Administration s Board of Trustees issues a report •n which Social Security's actuaries assess the program s finances and project its future performance, both for the near future the next ten years) and the long run (the next seventy-five years).

Obviously, labor productivity, real wages, unemployment, fertility, immigration levels, and other economic and demographic factors are important in determining OASDI's future revenues and costs. Therefore, the actuaries make assumptions about the future trends of these phenomena. Because the future is uncertain, they provide a range of possible outcomes by calculating three different possible futures for Social Security using three different sets of assumptions. These assumptions are named according to how Social' Security's finances would be affected if their projections came true: "low cost" (or "optimistic"), "intermediate" (or "most likely"), and "high cost' (or "pessimistic").[3]

An important calculation Social Security's actuaries make to provide a summary assessment of its future financial condition is the actuarial balance—essentially, the difference between the stream of Social Security's costs and the stream of its income over a period of analysis, summarized and expressed as a percentage of "taxable payroll," or taxable labor income. Each year, Social Security's actuaries calculate a long-term actuarial balance for the next 75 years. For several years, the actuaries have projected substantial long-term actuarial deficits. The 2002 *Annual Report* of Social Security's Board of Trustees projected, under intermediate actuarial assumptions, a cost rate of 15.59 percent of taxable payroll for the 2002-2076 period and an income rate of 13.72 percent, for a long-term actuarial deficit of -1.87 percent of taxable payroll.[4]

The actuarial deficit is not to be confused with the unfunded liability, a totally different concept. A. Haeworth Robertson, who served as Social Security's Chief Actuary in 1975-1978, defined "accrued liability" as "the present value of benefits that have been earned or accrued as of a given date but that will not actually be paid until a later

TABLE 1:

Total Fertility Rate, Number of Covered Workers and OASDI Beneficiaries (in thousands), and Number of Workers per Beneficiary, Selected Calendar Years, 1950-2040 (2010-2040: Estimates under Intermediate Actuarial Assumptions)

Calendar Year	Total Fertility Rate	Covered Workers	OASDI Beneficiaries	Workers per Beneficiary
1950	3.03	48,280	2,930	16.5
1960	3.61	72,530	14,262	5.1
1970	2.43	93,090	25,186	3.7
1975	1.77	100,200	31,123	3.2
1980	1.85	113,649	35,118	3.2
1985	1.84	120,565	36,650	3.3
1990	2.07	133,672	39,470	3.4
1995	2.02	141,017	43,108	3.3
2000	2.13	153,682	45,166	3.4
2010	2.07	165,443	52,865	3.1
2020	1.99	172,848	68,699	2.5
2030	1.95	178,131	84,070	2.1
2040	1.95	184,433	90,068	2.0

Source: *2002 OASDI Annual Report*

date. That is, it is the value of future benefits for current beneficiaries plus the future benefits of persons who have pad or are paying Social Security taxes and will be eligible to receive benefits n the future. Social Security has accumulated a stock of Treasury debt in its trust fund which con be redeemed to meet future benefit costs. Deducting this from the accrued liability gives the "unfunded accrued liability,' or 'unfunded liabihty."[5]

Immigration's role in Social Security's future being the focus of our study, we naturally want to pay special attention to the Social Security actuaries assumption regarding net immigration, or immigration adjusted for emigration. The actuaries estimate net legal immigration in calendar year 2001 at 620,000 persons and net illegal immigration at 300,000 persons. Under the intermediate actuarial analysis, they assume total net immigration, legal and illegal, at 900,000 for every year beginning in 2002. The "low cost" analysis assumes total net immigration at 140,000 persons in 2002 and rising to an ultimate level of 1,210,000 persons for every year afterward. The "high cost" assumption is net immigration of 718,000 persons in 2002 and 655,000 persons every year thereafter.[6]

To earn the difference that changes in assumptions about the size of the underlying economic and demographic variables can make for the actuarial balance, Social Security's actuaries make "sensitivity tests." That is, they assume different values for one variable, hold all other variables constant at the intermediate values, and calculate new actuarial balances. The difference between the new and old actuarial balances reveals "the sensitivity of the long-range actuarial status of the OASDI program to changes in selected individual assumptions' (hence the name "sensitivity test"). The sensitivity test for the immigration assumption plays an important role in the claims of immigrationists; we shall meet it again later.

The Social Security Crisis

Since Social Security is all about transferring money from a young working population to a dependent and mostly older population, demographics are central to Social Security's operations and financial health. As long as the population of workers is very large relative to the population of beneficiaries, Social Security's mechanism of taxes and transfers can operate and keep the program solvent, without putting an insupportably heavy tax burden on workers. Indeed, since 1983 tax revenues have generated surpluses, which Social Security has accumulated in the form of Treasury debt.

Unfortunately, the very high fertility period of 1945-1965, known as the Baby Boom, was followed by a fertility collapse after 1965. The fertility rate, or number of lifetime births per woman, fell below the replacement rate of 2.1. This means the taxpayer population born after 1965, who will pay benefits for the huge Baby Boom generation when it starts retiring about 2010, will grow more slowly than the beneficiary population it will support.

So while 3.4 taxpayers support every beneficiary today, under Social Security's "most likely" actuarial assumptions, this ratio falls to 3.1 in 2010, and just 2.0 in 2040 (see Table 1).[8]

However, under current law the Social Security tax rate will be at the same level in the future as it is today. The arithmetic is inexorable: in a few years, costs will start exceeding Social Security's tax revenues generated under current-law tax rates. Social Security will have to cash in the Treasury bonds in its trust fund to cover its deficit. Under "most likely" actuarial assumptions, by 2041 the trust fund will be gone, and Social Security's projected tax revenues will cover only 73 percent of projected costs.[9] As a result, in 2041 Social Security will not be able to pay full current-law benefits on time.

TABLE 2:

Projected Social Security Costs, Tax Income, Surpluses, Deficits, and Assets, in Current Dollars (billions), 2002-2055 (Intermediate Assumptions)

Calendar Year	Cost (Outgo)	Tax Income	Cash Surplus/ Deficit	Trust Fund Assets	Cost as % of GDP	Surplus/Deficit as % of GDP
2002	$465	$545	$80	$1,372	4.46	.76
2005	525	638	112	1,994	4.25	.91
2010	708	818	110	3,382	4.41	.68
2015	996	1,037	41	5,021	4.90	.20
2020	1,427	1,302	-125	6,484	5.50	-.49
2025	1,993	1,629	-364	7,220	6.23	-1.14
2030	2,667	2,038	-628	6,712	6.64	-1.56
2035	3,426	2,550	-876	4,531	6.78	-1.73
2040	4,273	3,184	-1,090	294	6.72	-1.71
2045	5,315	3,961	-1,355	-	6.66	-1.70
2050	6,641	4,915	-1,726	-	6.65	-1.73
2055	8,367	6,094	-2,272	-	6.70	-1.82

Source: *2002 OASDI Annual Report*

Another important cause of the Social Security program's financial troubles is rising longevity. Obviously, the longer people will live after they have gone on Social Security, the higher the program's costs will be. In 1940, life expectancy at age 65 was 11.9 more years for men and 13.4 more years for women. By 1999, it was 15.7 years for men and 18.9 years for women. Under intermediate assumptions, by 2020 it is projected at 1 7 years for men and 20 for women, and is projected to continue rising thereafter.[10]

As the Baby Boomers retire, Social Security's costs—its benefit outlays—will explode. So will its cash deficits, i.e., the difference between tax revenues and costs, both in dollar terms and as shares of Gross Domestic Product (GDP) (see Table 2).[11]

The Immigration Temptation

Obviously, cutting benefits or raising taxes by amounts sufficient to eliminate these deficits will be painful and politically dangerous. Immigration, its advocates argue, provides an easy way out, because it immediately adds more young workers, reversing the declining ratio of taxpayers to beneficiaries.

University of Maryland business administration professor Julian Simon, one of the most prominent immigration enthusiasts of recent decades, was a pioneer in arguing that high levels of immigration increased Social Security's taxpaying population, thus improving its cash flow. The Social Security debate, he observed in his 1989 *Economic Consequences of Immigration*, is "agonizing," because as long as the numbers of workers and elderly stay unchanged, we face only painful options: raise taxes or cut benefits. Since it is "unthinkable" to reduce the population of elderly, the only way to reduce tax

burdens on the young without cutting benefits is to increase the number of young taxpayers. Simon pointed out, correctly, that while having more children would be helpful, they wouldn't enter the labor force, and the population of taxpayers, until two decades after birth. Therefore, the only source of immediate help is immigration. "As soon as the average immigrant begins working—which generally is quite soon after arriving in this country—[he] begins to contribute to the Social Security coffers." Opponents to immigration might argue that this gain to the natives is offset by his eventual receipt of benefits. Not so, Simon claimed, because by the time the immigrants retire, they will have had children, who will help pay for their benefits. Simon conceded that immigration is "not a complete cure" for Social Security, because any likely American immigration policy would limit the number of immigrants admitted.[12]

Simon reiterated his claims in 1990. "Immigration reduces the uncuttable social costs of the elderly," he declared, because new immigrants are typically young, lust beginning lifetimes as workers and taxpayers. "Immigration is the best way to lighten the Social Security burden of the aging U.S. population." Because of their relative youthfulness, immigrants "immediately lessen the Social Security burden upon native workers." Immigration and the resulting revenue gain "provides the only way to reduce the federal budget deficit without making painful cuts in valued services."

Two other immigration enthusiasts, Ben Wattenberg and Karl Zinsmeister of the American Enterprise Institute, echoed Simon's assertions. Noting Social Security's bleak demographic outlook, Wattenberg and Zinsmeister added that returning Social Security to "demographic equilibrium" through "more nearly balancing the number of workers and retirees" would reduce the need to cut benefits or raise taxes "for many decades." While helpful, increased American fertility would pay off only with a log. "Immigration, however, can begin to ameliorate these imbalances fairly quickly. Each payroll-taxpaying immigrant adds thousands of dollars per year to the Social Security trust funds."[14]

In the years that followed, immigrationists returned again and again to the claim that immigration is a cure for Social Security's woes. This became a rote argument made by flat assertion, its validity taken for granted. The aging of our population, American Demographics, Inc. president Peter Francese declared, "virtually mandate[s]" revising federal policy to allow more immigration, because paying for the elderly's retirement and medical care will "squeeze future U.S. workers in the grip of higher federal payroll taxes." "Widening the number of young immigrants paying into the Social Security system may be the only way to diminish the demographic crisis expected when the Baby Boomers retire," shrilled a 1996 *Wall Street Journal* editorial. When the aging of Europe's population and the collapse of European birth rates made national news in 1997, Charles Krauthammer warned that Europe faced "economic disaster: Not enough working young people to pay the pensions of the old." Thankfully, however, though America's fertility rate too is "barely at replacement level... we are saved—by immigration," which is "a lifesaver."

Indeed, the tone of immigrationist invocation of the looming Social Security crisis sometimes approached panic. In a May 24, 2001 column Richard Reeves bleated frantically that "we need these people desperately. Who, after all, is going to do the work? Who is going to pay my Social Security and Medicare?" Immigrants, a subsequent Reeves column declared, supply "the young people the United States needs to support its aging population."[15] And so on—and on—and on. In 1997 immigration advocate Ben

Wattenberg proposed massively increased immigration as "the easy solution" for Social Security. At that time, America was accepting roughly a million immigrants a year. If we took roughly an additional million annually, over the next 75 years, Wattenberg claimed, this "would cut Social Security's shortfall by 28 percent, amounting to a savings of $1.4 trillion."[16]

Other immigrationists, as we shall see, have gone even further, arguing that increasing immigration would, all by itself, suffice to erase Social Security's problems. Still others point to estimates of OASDI revenue from existing immigrants and argue that if some is good, more is better.

Superficially considered, this looks persuasive. The intuitive appeal is obvious. If Social Security's woes boil down to demographics, we need only reverse the negative demographic trend. If there won't be enough younger taxpayers supporting older retirees, the way to fix things is to add plenty of young bodies-right? Wrong, it turns out.

It turns out, too, that "superficially considered" is right. The arguments touting immigration as the answer for Social Security ore without exception glib, flippant, shallow, and simplistic, never going beyond this skin deep intuitive appeal, making facile assertions without thinking through what they imply. It is a telling performance for people who routinely assert an intellectual and moral superiority over their benighted "nativist" opponents.

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[1] *2002 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* [hereafter, *2002 OASDI Annual Report*] pp. 5, 100-101, Table V.C1,-Cost of-Living Benefit Increases, Average Wage Index, Contribution and Benefit Base, and Retirement Earnings Test Exemption Amounts, 1975-2011.

[2] Ibid., p. 5, Table ll.B1 -Summary of 2007 Trust Fund Operations.

[3] Ibid., p. 1.

[4] Ibid., pp. 1516.

[5] A. Haeworth Robertson, *Social Security: What Every Taxpayer Should Know* Washington: Retirement Policy Institute, 19921, Pp. 103, 104, 115, 120.

[6] 2002 OASDI Annual Report, p. 77.

[7] Ibid., P. 146.

[8] *2002 OASDI Annual Report*, pp. 52-53, Table IV.B2-Covered Workers and Beneficiaries, Calendar Years 1945-2080; pp. 78-79, Table V.A.l -Principal Demographic Assumptions, Calendar Years 1940-2080.

[9] Ibid., pp. 3, 15.

[10] Ibid., p. 83, Table V.A3.-Period Life Expectancies.

[11] Ibid., pp. 164-165, Table VI.E5.-OASDI and HI Annual and

Summarized Income, Outgo, and Balance as a Percentage of GDP Calendar Years 2002-80; pp. 176-177, Table Vl.E10.- OASDI and HI Annual Income Excluding Interest, Outgo, and Balance in Current Dollars, Calendar Years 2002-80.

[12] Julian Simon, *The Economic Consequences of Immigration* (Oxford: Basil Blackwell, 1989), pp. 125-127.

[13] Julian L. Simon, "Bring on the Wretched Refuse," *Wall Street Journal*, January 26, 1990; Julian L. Simon, "The case for greatly increased immigration," *The Public Interest*, no. 102 Winter 1991, p.98.

[14] Ben J. Wattenberg and Karl Zinsmeister, "The Case for More Immigration," *Commentary*, April 1990, p. 23.

[15] Peter Francese, "Aging America Needs Foreign Blood," *Wall Street Journal*, March 27, 1990; "Nativist RNC,' *Wall Street Journal* March 20, 1996; Charles Krauthammer, "Saved by Immigrants: The U.S. fertility rate is barely at replacement level," *Washington Post*, July 17, 1998; Richard Reeves, "The New Immigrants Are Actually New Pioneers," May 24, 2001, at www.express.com/richard reeves; Richard Reeves, "A chaotic immigration policy . . . that works," Raleigh *News and Observer*, August 19, 2001. The Independent Institute made the same assertions. See Richard Vedder and Lowell Galloway, "Immigration: The Solution, Not the Problem," January 29, 1997, and Alexander T. Tabarrok, "Economic and Moral Factors in Favor of Open Immigration," September 14, 2000, both available at www.independent.org.

[16] Ben J. Wattenberg, "The Easy Solution to the Social Security Crisis," *New York Times Magazine*, June 22, 1997, p. 31.

CHAPTER TWO:
YES, THE SOCIAL SECURITY CRISIS IS REAL

But before we explain why immigration is no answer for Social Security, we must banish the temptation to flee into denial. Some immigration restrictionists argue that increasing immigration is unnecessary because the Social Security crisis is not real. This is the wrong answer to the immigrationists, because this claim is false, and the arguments made to support that claim are easily debunked.

Misunderstanding the Actuarial Deficit

It is frequently argued that there is nothing wrong withSocial Security which minor tax increases and benefit trims can't cure. The argument goes like this. For the past few years, long-term actuarial deficits have been projected in the neighborhood of about 2 percent of taxable payroll. (The 2002 actuarial analysis, for example, reported an actuarial deficit of -1.87 percent of taxable payroll.) That being so, supposedly we can fix things by simply making tax increases plus benefit cuts totalling about 2 percent of taxable payroll.[1]

Wrong. As Harry Ballantyne, then Social Security's Chief Actuary, explained to this writer in 1996, the actuarial deficit is a summary measure of Social Security's financial soundness over a long period. It is not an annual figure, like the federal budget deficit. Social Security's long-term analysis covers 75 years. Early in this period, Social Security will run annual surpluses of income over costs. But in the distant future, the "out years," it will run annual deficits, as Boomers retire and costs exceed income. What achieving long-term actuarial balance (eliminating the actuarial deficit) means is that the trust fund assets at the beginning of the period, plus the annual surpluses accruing in the near future, will be just large enough to cover the annual deficits in the out years.[2] Those deficits will still create a serious economic burden, since they will have to be financed by higher taxes or borrowing from the public.

How big would those deficits be? Under the 2002*Annual Report*'s intermediate assumptions, in calendar 2070, for example, Social Security's deficit would be -6.00percent of taxable payroll, or -$5,215 billion in nominal dollars.[3] If the tax rate were permanently increased by 1.87 percent of taxable payroll today, eliminating the actuarial deficit, the deficit for 2070 would be -4.1 3 percent of taxable payroll 1-6.00+1 .87), or roughly -$3,590 billion. That's -$3.59 trillion. This is how much extra money, over and above Social Security tax revenues, the Treasury would have to raise to pay Social Security benefits. For one year. So even with the actuarial deficit eliminated, financing Social Security would still greatly burden the economy.

Dependency Ratio Fallacies

Another mistaken approach, taken by the Federation for American Immigration Reform, claims that the problems created by the aging of our population are overstated or nonexistent. This argument has it that focusing on the ratio between the working-age ages 20-641 population and the elderly ages 65 and up) population, or "elderly dependency

ratio," is too pessimistic. Instead, we should consider the overall dependency ratio, between the working-age population and everybody else—that is, the sum of the dependent young (those under 20) and the dependent elderly ages 65 and up) populations, divided by the working-age population. "Despite all the hype about the unprecedentedly high dependency ratios that will result from the Baby Boomers entering old age, the reality is that in 2070 the dependency ratio will still be lower than it was in 1970."[4]

TABLE 1:

Demographic Cohorts and Dependency Ratios, Calendar Years 1950-2080
(1950-2000, Historical Data; 2010-2080, Intermediate Assumptions)

	Population (thousands)				Dependency Ratio	
Calendar Year	Under 20	Ages 20-64	Ages 65 and up	Total	Aged	Total
1950	53,895	92,739	12,752	159,386	0.138	0.719
1960	72,989	99,842	17,250	190,081	.173	.904
1970	80,685	113,194	20,921	214,800	.185	898
1980	74,570	134,431	26,149	235,150	.195	.749
1990	75,172	152,973	32,036	260,181	.209	.701
2000	82,009	168,251	35,516	285,776	.211	.699
2010	84,734	185,950	39,481	310,164	.212	.668
2020	86,998	193,569	53,150	333,718	.275	.724
2030	88,619	195,606	69,408	353,633	.355	.808
2040	89,642	204,018	75,177	368,836	.368	.808
2050	91,392	211,107	78,272	380,770	.371	.804
2060	92,897	215,086	84,356	392,338	.392	.824
2070	94,249	219,610	90,646	404,506	.413	.842
2080	95,823	223,259	96,545	415,626	.432	.862

Source: 2002 OASDI Annual Report

As Table 1 shows, this is true as far as it goes.[5] Because of the Baby Boom, in 1960 and 1970 there was a very large population under age 20, so the total dependency ratio for those years was quite high. Then, as the Baby Boom generation aged and began entering the cohort aged 20-64, the total dependency ratio began to drop. The growth of this cohort was so huge it swamped everything else, including the slower increase in the population aged 65 and over. Also, the slow upward creep of the aged dependency ratio was offset by the decline in fertility after 1965. As the Boomers retire, the aged dependency ratio soars, driving the total up. But while the total ratio in 2070, .842, is indeed below l970's figure of .898, note that it is not all that much lower – just six percent smaller, to be exact. Hardly grounds for complacence.

The dependency ratio argument goes on to claim that the rising share of the elderly in the total dependent population is "a positive-not negative-development." Most Americans under 20 are financially dependent on parents or taxpayers, and generate "one

of society's heftiest expenses: education." In 1996, 29 percent of outlays by state and local governments went for education.[6]

Unfortunately, this approach is flawed. As the Congressional Budget Office has observed, "for the outlook for the federal budget, the combined share [i.e., total dependency ratio] is misleading because federal spending for an elderly person is roughly seven to eight and one-half times that for a child."[7] Most federal programs for children are poverty programs, with tiny outlays compared to Social Security's. Also, as the Social Security Advisory Board's 1999 Technical Panel of actuaries, demographers, and economists observed in its report on actuarial assumptions and methods, because Social Security primarily serves elderly beneficiaries, for Social Security "the total dependency ratio is irrelevant; it is only The old-age dependency ratio that matters."[8]

That being the case, dragging in the dependent children is simply irrelevant. Moreover, the high spending by state and local governments on education has nothing whatever to do with Social Security, which after all is a federal program.

A final claim this argument makes is simply to debunk the notion of elderly dependence altogether. "Only a portion of 65 year ads are 'dependent' on society"; many keep working and draw on their own investments and savings. Moreover, with better and improving health care, mare and more of them will work longer.[9]

In fact, participation in Social Security by the elderly is almost universal, and dependence is heavy. About 90 percent of Americans aged 65 and older collected Social Security in 1999. Moreover, for 18 percent of those aged 65 or older Social Security was their only source of income; for 11 percent, Social Security provided 90-99 percent; and for 35 percent, 50-89 percent. Thus for 64 percent of the beneficiaries over 65, Social Security provided at least half of their retirement income.[10]

The claim that many elderly do not depend on society, meaning Social Security, because they keep working, ignores Social Security's "retirement earnings test," under which they can earn substantial income without losing their benefits. Originally stern and rigorous—any income in a given month from employment covered by the Social Security Act meant loss of all benefits for that month—the test has been increasingly liberalized in response to beneficiary complaints about the benefit loss. As of 1999, if one retired at age 65 and took another job, he could earn up to $15,500 without losing benefits. Once one reached 70, there was no benefit loss from working at all. As of 2000, the earnings limit was raised to $17,000, and the threshold age for exemption from benefit loss was lowered from 70 to the normal retirement age.[11]

Summary

The Social Security program is indeed being driven towards financial crisis by the demographics of an aging population. The crisis is too serious for minor adjustments to taxes and benefits to solve. And because Social Security is primarily for elderly persons, the aged dependency ratio is the one that matters; dragging in the total dependency ratio is misleading, and the dependency of young children is simply irrelevant. Most old people do collect Social Security benefits, and many of them depend on Social Security heavily. Denial about Social Security's troubles is not an option.

What's more, this is a weak and unconvincing strategy for answering the claims of immigrationists. Not only is denial a weak, easily demolished reed on which to lean, it

leaves immigrationists claims unaddressed. A more robust approach is to confront their claims, examine them critically, and determine whether or not they are sound—and if not, why not.

Yes, Virginia, the Social Security crisis is real. But this does not mean that stepped-up immigration is the answer to it. Just because a given doctor makes a correct diagnosis, it does not logically follow that his prescribed cure is always correct. To determine whether the recommended course of action is the right one, we need to answer three questions. Does it in fact address the cause(s) of the problem? Does it do so adequately? And does it have negative effects canceling out or even overwhelming the good it does?

Let's look closely at the immigrationists' arguments and see how well they hold up.

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[1] See, for example, Robert Eisner, *The Great Deficit Scares* (New York: The Century Foundation, 1997), cited in Federation for American Immigration Reform [hereafter, FAIR], 'A Ponzi Problem: The U.S. Dependency Ratio, Social Security Solvency, and the False Panacea of Immigration," p. 3.

[2] Author's telephone conversation with Harry Ballantyne, Chief Actuary of Social Security, October 7, 1996.

[3] 2002 OASDI Annual Report, pp. 158-159, Table VI.E2.-Estimated OASDI and HI Annual Income Rates, Cast Rates, and Balances, Calendar Years 2002-80, and pp. 176-177, Table VI.E10.-OASDI and HI Annual Income Excluding Interest, Outgo, and Balance in Current Dollars, Calendar Years 2002-80.

[4] FAIR, A Ponzi Problem, p. 4. See also Roy Beck, *The Case Against Immigration* (New York & London: W. W. Norton & Co., 1996), pp. 153-154.

[5] Table 1 source: *2002 OASDI Annual Report*, pp. 80-81, Table V.A2 -Social Security Area Population as of July 1 and Dependency Ratios, Calendar Years 1950-2080.

[6] FAIR, "A Ponzi Problem," p. 5.

[7] "Preparing for an Aging Population," Testimony of Dan L. Crippen, Director, Congressional Budget Office, before the House Budget Committee, July 27, 2000, p. 4 (www.cbo.gov).

[8] Social Security Advisory Board, 1999 Technical Panel on Assumptions and Methods, *Report to the Social Security Advisory Board*, November 1999, p. 71.

[9] FAIR, "A Ponzi Problem, pp. 5 6.

[10] Social Security Bulletin, *Annual Statistical Supplement*, 2000, pp. 1, 10.

[11] *2002 QASDI Annual Report*, pp. 100-101, Table V.C 1 —Cost-of-Living Benefit Increases, Average Wage Indexes, OASDI Contribution and Benefit Bases, and Retirement Earnings Test Exempt Amounts, by Alternative, 1975-2011.

CHAPTER THREE:
REVENUE GAINS: CHICKEN FEED

One of the most common claims immigration advocates make is that immigration at today's levels contributes substantial revenue gains to Social Security, therefore immigration is crucial to solving Social Security's problems.

Stephen Moore's 1998 Study

This claim has its roots in a 1998 study by the economist Stephen Moore, a senior fellow at the Cato Institute, titled A Fiscal Portrait of the Newest Americans, and published jointly by Cato and the National Immigration Forum. Moore argued that immigrants are anet gain to the American economy, that once naturalized they usually pay more in taxes than do indigenous Americans, are "huge net contributors" to Social Security and Medicare, and are "a fiscal bargain for American taxpayers."[1]

Regarding Social Security specifically, Moore pointed out that immigrants are much younger than the native American population, with only 3.3 percent of them elderly versus 12 percent of Americans. While they work, therefore, their Social Security taxes are for the most part not offset by benefit payments to their parents, most of whom are in the old country. "That creates a huge one-generation windfall to the Social Security system." This is especially important in view of the impending retirement of the Baby Boomers. "The Social Security and Medicare systems now face a combined unfunded liability of at least $10 trillion." Taxpaying immigrants will help bear this huge burden.[2]

Moore then invoked the sensitivity test of the 1998 Annual Report of Social Security's trustees, quoting it to the effect that "For all three periods [1998-2022, 1998-2047, and 1998-2072], the cost of the Social Security system decreases with increasing rates of net immigration. Using the sensitivity test, especially the tests finding that each increase in net immigration by 100,000 reduces the long-term actuarial deficit by 0.06 percent of taxable payroll, Moore calculated dollar estimates of the gain in revenue from immigration. Assuming net immigration of 800,000 a year, Moore estimated that this increased Social Security's "net trust fund balance" by $484 billion in 1998-2022 ($19.3 billion a year), $1,117 billion in 1998-2047 ($22.3 billion a year), and $1,934 billion in 1998-2072 ($25.8 billion a year), all in 1998 dollars. That is, the "total net asset (taxes paid over benefits collected" to Social Security from this level of immigration in 1998 dollars "is nearly $500 billion from 1998 to 2022 and nearly $2.0 trillion through 2072."[3]

In other words, Moore wrote, if immigration were totally cut off, "the unfunded liability of the Social Security ystem" in 1998-2022 would be $500 billion higher than with continued immigration at today's level, and the "long-term unfunded liability" would be $2 trillion higher through 2072. He also calculated that if annual net immigration were upped to 1,000,000, this would increase Social Security's "net trust fund balance" by $604 billion in 1998-2022 ($24.2 billion a year), $1,396 billion in 1998-2047 ($27.9 billion a year), and $2,418 billion in 1998-2072 ($32.2 billion a year) (all in 1998 dollars). Moore concluded that "Continuing immigration is clearly an integral part of any solution to the long-term financing crisis in Social Security."[4]

"Moore . . . Moore . . . Moore . . . The Immigrationist Echo Chamber

Citing Moore's study has become routine for immigrationists. Immigration lawyers have an obvious, self-serving interest in seizing upon and broadcasting anything that makes immigration look good. Accordingly, the American Immigration Lawyers Association publishes a fact sheet, "Social Impact of Immigrants," which claims flatly, without qualification, that "Immigrants keep Social Security afloat. Without the contributions of immigrants, the unfunded liability of the Social Security system from 1988 [sic] to 2002 [sic] would be $500 billion higher. If you look at the unfunded liability through the year 2072, it would be $2 trillion higher without the economic contributions of immigrants."[5] The impression this was obviously meant to convey is that immigrants alone are standing between Social Security and ruin.

An immigration law firm in Denver, Joseph Law Firm,has a fact sheet on its web site, "Social Impact of Immigrants," repeating all of this verbatim.[6] In February 2000 Gary Endelman, an immigration lawyer at BC Amoco, wrote an article arguing that immigrants would offset the aging of America's population. Referring to Moore's study, Endelman stated that the "total net benefit" to Social Security from maintaining today's immigration levels would be "nearly $500 billion" for 1998-2022 and "almost an astonishing $2 trillion through the year 2072! Immigration is an essential strategy that responsible policy makers must use in a robust way to solve the systemic problem of financing Social Security."[7]

Endelman's 2002 article "A Time for Hope: Immigration and National Security" returned to the problem of the falling American birth rate and asserted that "only immigration can make up the difference. Stephen Moore of the Cato Institute predicts that foreign-born workers will pour some $2 trillion into the Social Security Trust Fund over the next 70 years." As we lack the will to raise Social Security taxes or cut benefits, "immigration is the only way for Social Security to remain solvent."[8]

The American Immigration Law Foundation also has a web site, and here too one finds references to Moore's study, in the Immigration Policy Reports "U.S. Benefits from Foreign-Born" and "Immigrants and Health Insurance."[9]

At the National Immigration Forum's web site, one may find a short publication titled "Immigrants and the Economy," stating that immigrants are "net contributors to Social Security and Medicare," paying, in today's dollars, almost $500 billion more in taxes than they collect in Social Security benefits in 1998-2022 and nearly $2 trillion in 1998-2072. Therefore, "Immigrant workers will be an essential component to solving the long-term problem of financing Social Security."

Other immigration advocates who invoke Moore include the Migration and Refugee Services of the passionately pro-immigration United States Conference of Catholic Bishops and the free-market Lexington Institute.[11]

And in her "Too Many Immigrants?" essay in the April 2002 issue of *Commentary*, immigrationist Tamar Jacoby argued that even illegals "generally" pay Social Security taxes, even though they may never get benefits. She then trotted out Moore: "According to Stephen Moore, an economist at the Cato Institute, foreign-born workers are likely to contribute as much as $2 trillion to Social Security over the next 70 years, thus effectively keeping it afloat."[12]

This performance highlights a singular feature of immigrationists. They tend to be glib, facile folk, robotically cranking out highly derivative pieces. Few do any real

original thinking; most simply cite assertions by Julian Simon or Moore as self-evident truths, never bothering to investigate their soundness. The immigrationist camp invites comparison to an echo chamber or a hall of mirrors.

A Critical Look at Moore's Study

Since immigrationists lean so heavily on Moore's study, giving it critical scrutiny is imperative. It turns out that Moore flops on three counts: his concepts are confused, his method is unsound, and the revenue gains attributed to immigration are underwhelming. We'll address these problems in that order.

1. Conceptual Confusion

As one reads through Moore's analysis, a glaring error jumps out. Moore cites a $10 trillion "combined unfunded liability" for Social Security and Medicare, then invokes the Social Security sensitivity test for immigration. Based on that, he presents figures for how much immigrants' tax payments supposedly reduce Social Security's "long-term unfunded liability."

But the sensitivity test has nothing to do with unfunded liability. Rather, it shows how the *long-term actuarial deficit* changes if the immigration assumption changes. As former Chief Actuary Robertson pointed out, accrued liability "is a completely separate issue from the 'actuarial deficit.' The existence and the amount of the accrued liability has no relation whatsoever to the actuarial deficit, although these two terms are frequently confused."[13]

Unfunded liability refers to the present value of future benefit costs minus *surplus revenues already received*—accrued liability minus assets accumulated in the trust fund. A funded liability is one for which monies to pay for it are already on hand; an unfunded liability is one for which they are not. Future revenues don't fund anything. They can't. They haven't been received yet.

Long-term actuarial deficit is a summary measure of the difference between future costs and future revenues. More technically, the long-term actuarial deficit is the difference between (1) [the sum of (a) the summarized cost rate, or the present value of projected expenditures over the next 75 years divided by the present value of future taxable payroll, plus (b) the present value of a trust fund balance sufficient to cover 1 00 percent of costs in the periods final year], and (2) [the sum of (a) the summarized income rate, or the present value of projected income over the next 75 years divided by the present value of future taxable payroll, plus (b) the trust fund assets at the beginning of the period].[14]

So unfunded liability measures future costs minus surplus *past* revenues, and actuarial deficit measures future costs minus *future* revenues.

Moore equates them, apparently without realizing the difference (and he apparently hasn't read his Robertson). A conceptual confusion this basic is a strong sign that the person making it does not know what he is doing.

Amusingly and tellingly, some of the immigrationists parroted Moore's error of equating "unfunded liability" with "actuarial deficit." Not one knew enough about Social Security to catch the mistake!

2. Unsound Method

The question naturally arises, how did Moore come up with his dollar estimates using the sensitivity study? He doesn't tell, but the Appendix of the 1998 *Annual Report* of Social Security's trustees gives a hint. Here the actuaries present estimates of Social Security's future operations under various actuarial assumptions in both current (nominal) dollars and constant dollars, plus various economic assumptions, including the Consumer Price Index. This enables us to convert projected figures for future income and costs to constant 1998 dollars, as shown in Table 1.[15]

TABLE 1:

OASDI Cash Income, Outgo and Balance Figures, in Current and Constant (1998) Dollars (billions of dollars), and Consumer Price Index, Calendar Years 1998-2070 (Intermediate Assumptions)

	Current Dollar Figures				Constant Dollar Figures		
Year	Income	Outgo	Balance	CPI	Income	Outgo	Balance
1998	$435	$383	$52	100	$435	$383	$52
1999	450	396	54	102.38	440	387	53
2000	468	413	54	105.01	446	393	53
2005	585	533	52	122.03	479	437	42
2010	756	724	32	144.94	522	500	22
2015	965	1,014	-49	172.14	561	589	-28
2020	1,217	1,430	-214	204.45	595	699	-104
2025	1,525	1,958	-433	242.82	628	806	-178
2030	1,917	2,601	-684	288.40	665	902	-237
2035	2,418	3,342	-925	342.52	706	976	-270
2040	3,043	4,190	-1,147	406.81	748	1,030	-282
2045	3,813	5,243	-1,429	483.16	789	1,085	-296
2050	4,768	6,600	-1,832	573.85	831	1,150	-319
2055	5,957	8,390	-2,433	681.55	874	1,231	-357
2060	7,444	10,673	-3,229	809.47	920	1,319	-399
2065	9,304	13,505	-4,200	961.39	968	1,405	-437
2070	11,622	17,037	-5,415	1,141.84	1,018	1,492	-474

Source: *1998 OASDI Annual Report*

The second, third and fourth columns give Social Security's cash flow figures—income minus interest, outgo, and balance-in current dollars. We convert them to constant 1998 dollars by using the Consumer Price Index (CPI) figures in the fifth column. These figures use 1998 as the base year, so the price index for 1998 has a value of 100. If prices are assumed to rise, the second years index number is higher. The CP1 for 1999 is 102.38. So the current dollar figures are 102.38 percent of their 1998 eve1. To convert them to 1998 dollars, we need only divide them by 1.0238. Likewise, the actuaries assumed that prices in 2000 would be 5.01 percent higher than in 1998, giving a CP1 for 2000 of

105.01, so division of 2000's current dollar figures by 1.0501 would get them in 1998 dollars. And so on.

With this method, we can calculate revenues and costs for each year in 1998-2072 and add them up. The sum of future revenues over the 75-year period is $53,752 billion 1998 dollars, the summed future cost is $70,086 billion, and the total deficit is $16,334 billion.

Examining the 1998 sensitivity test for immigration (see Table 2), we see that the income rate for 1998-2072, assuming 900,000 net immigrant, is 13.45 percent of taxable payroll.[16]

If we assume that this corresponds to the summed income total of $53,752 billion and divide this by 134.5, we get $399.6 billion per 0.1 percent of taxable payroll. Taking 60 percent of this gives $239.8 billion per 0.06 percent of taxable payroll. Now, if we use the sensitivity test result that assuming an additional 100,000 immigrants decreases the long-term actuarial deficit of 0.06 percent of payroll, and multiply $239.8 billion by 8 for 800,000 immigrant, we obtain $1,918.4 billion, quite near Moore's $1,934 billion. Dividing by 75 gives an annual average of $25.6 billion, extremely close to Moore's $25.8 billion.

Multiplying $239.8 billion by 10, for a million immigrants, gives $2,398 billion, quite close to Moore's of $2,418 billion, for an annual average of $32.0 billion, very near his $32.2 billion. Rounding during the many steps easily explains the trifling discrepancies. We're in the ball park.

This is almost certainly how Moore got his results. But if it is, they're hokey.

Here's why.

First, the long-term actuarial balance is a present-value calculation, whereby summarized future income and cost rates are discounted to the present using *an assumed interest rate*, to allow for changes in the time value of money. The constant-dollar figures for future revenues are conversions of nominal to constant dollars using *assumed values of the Consumer Price Index*. The summarized income rate used in the long-term actuarial balance is therefore not equivalent to the sum of the future revenues expressed in 1998 dollars. They are totally different calculations, done by different methods, measuring different things (the summarized future income rate includes the trust funds initial assets, but the summed constant-dollar revenues do not). They have nothing to do with each other. That being so, it is obviously invalid to assert a correspondence between the one and the other.

Second, applying the sensitivity test to the constant-dollar figures for future revenues is therefore invalid. The sensitivity test tells us how changing the immigration assumption changes the long-term actuarial deficit. It tells us nothing about immigrations effect on inflation-adjusted revenues. Moreover, a result generated from calculations generated one way (present-value) should not be applied to numbers generated another way (inflation adjustment).

Third, the sensitivity test does not really provide a basis for isolating the contribution to Social Security's revenues from an existing level of net immigration. The result that the actuarial deficit falls by 0.06 percent of payroll per assumed additional 100,000 immigrants measures a departure, not from an initial immigration level of zero,

but from an initial level of 900,000. The only valid way to proceed here is to calculate the long-term balance assuming zero net immigration, calculate the long-term balance assuming net immigration of 800,000, and take the difference between them. Moore should know that.

An actuary at Social Security's Office of Long Range Actuarial Estimate confirmed that this understanding of the long-term actuarial balance is correct, concurred that since my numbers are so close to Moore's this is probably the approach he used, and concurred in all three of the foregoing criticisms.[17]

Also, if we look closely at the last line of the sensitivity test table, we see that the effect on the long-term actuarial balance of departures from the intermediate assumption of 900,000 immigrants is not symmetric. Increasing the immigration assumption from 900,000 to 1,150,000, up by 250,000, knocks 0.15 percent of taxable payroll off the deficit, implying 0.06 percent per 100,000—but decreasing the immigration assumption to 750,000 raises the deficit to 2.27 percent of payroll, up 0.08 percent, implying that a decrease of 100,000 increases the deficit by 0.053 percent of payroll. Using $399.6 billion per 0.1 percent of payroll and taking 53 percent of this, we get a revenue loss of $211.8 billion per 100,000 fewer immigrants. Multiplying by 8 implies that an immigration cutoff means a revenue loss not of $1,934 billion, as he claims, but $1,694 billion.

Or is it an increase, as he says, in the unfunded liability8 Or in the actuarial deficif8 We see that Moore equates not two but *three* measures. He uses a sensitivity test measuring *changes in the actuarial deficit* to generate summed constant-dollar revenue gains, i.e., *reductions in the summed constant-dollar deficit*, which he calls reductions in Social Security's *unfunded liability*. But unfunded liability is not long-term actuarial deficit and is not summed constant-dollar deficit. Moore's method rests on either profound conceptual confusion or sleight of hand in service of an agenda. Or maybe both.

3. Unimpressive Revenue Contributions

But let's assume for argument's sake that Moore's method is valid. He's still not out of the woods.

The immigrationists who cite Moore regurgitate his dollar figures, sometimes in gee-whiz tones ("almost an astonishing 2 trillion through the year 2072!"), and leave it at that. The numbers do look impressive in isolation, which is the psychological effect the immigrationists are countingon. *Geez, two trillion bucks! Wow! Boy, we'd be sunk without these people! We don't dare cut off immigration! Those restrictionists must be nuts!* That's what they want you to think.

But as any serious economist knows, a free-standing dollar figure doesn't necessarily tell us much. What matters is how large the immigrants' revenue contribution is compared to the magnitude of Social Security's total revenues and costs. Making this comparison is an obvious way to put things in perspective. In fact, it is absolutely essential. It is the only way of finding out bow important immigration is in Social Security's scheme of things. And it cuts Moore's claims down to size very quickly.

First we compare the total alleged revenue contributions from Moore's two levels of annual immigration to the total revenue and total deficits in constant dollars over the 75-year period (Table 3).

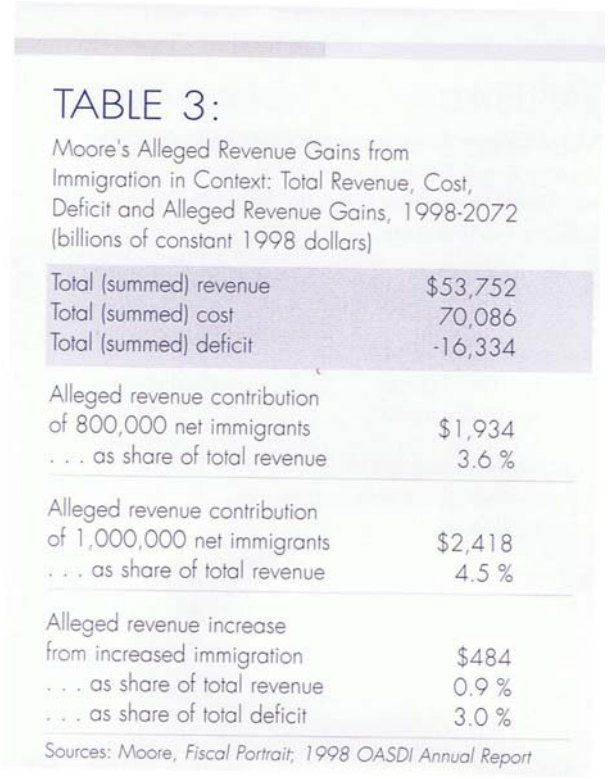

TABLE 3:

Moore's Alleged Revenue Gains from Immigration in Context: Total Revenue, Cost, Deficit and Alleged Revenue Gains, 1998-2072 (billions of constant 1998 dollars)

Total (summed) revenue	$53,752
Total (summed) cost	70,086
Total (summed) deficit	-16,334
Alleged revenue contribution of 800,000 net immigrants	$1,934
. . . as share of total revenue	3.6 %
Alleged revenue contribution of 1,000,000 net immigrants	$2,418
. . . as share of total revenue	4.5 %
Alleged revenue increase from increased immigration	$484
. . . as share of total revenue	0.9 %
. . . as share of total deficit	3.0 %

Sources: Moore, *Fiscal Portrait; 1998 OASDI Annual Report*

Obviously, the alleged revenue contribution of the assumed 800,000 net immigrants is only a sliver of the total. Increasing annual net immigration to a million persons yields only a very modest revenue gain, which knocks only 3.0 percent off the total deficit over the 75-year period-a trifling improvement. Is this Moore's idea of "a huge one-generation windfall"?

When we look at the 25-year, 50-year and 75-year periods, the results are quite similar (Table 4).

TABLE 4:

Moore's Alleged Revenue Gains from Immigration in Context:
Average Annual Income, Outgo, Deficits, Revenue Gains
with Different Immigration Levels, and Difference, Various Periods
(billions 1998 dollars)

Valuation period	25 years (1998-2022)	50 years (1998-2047)	75 years (1998-2072)
Average annual income	$520.6	$614.0	$716.7
Average annual outgo	s524.4	742.0	934.5
Average annual deficit	-3.8	-128.0	-217.8
Ave. revenue gain, 800 K im./yr.	$19.3	$22.3	$25.8
. . . as share of average income	3.7 %	3.6 %	3.6 %
. . . as share of average outgo	3.7 %	3.0 %	2.8 %
Ave. revenue gain, 1,000 K im./yr.	$24.2	$27.9	$32.2
. . . as share of average income	4.6 %	4.5 %	4.5 %
. . . as share of average outgo	4.6 %	3.8 %	3.4 %
Ave. gain from higher immigration	+ $4.9	+ $5.6	+ $6.4
. . . as share of average income	0.9 %	0.9 %	0.9 %
. . . as share of average outgo	0.9 %	0.8 %	0.7 %
. . . as share of average deficit	130 %	4.4 %	2.9 %

Sources: Moore, *Fiscal Portrait; 1998 OASDI Annual Report*

We see that the average annual revenue contributions from 800,000 and 1,000,000 net immigrants a year are modest both in absolute terms and as shares of the average Social Security income and outgo in all periods. Raising immigration from 800,000 to a million a year yields only very modest increases in the average annual revenue contributions of immigration. Only in the first 25-year period is it enough to wipe out the average annual deficit. After that, the additional contribution to Social Security's finances from increasing immigration is peanuts.

To put this another way, if Social Security's average annual cost in 1998-2072 is $934.5 billion (1998 dollars) then the average cost will be $2.6 billion a day. At $25.8 billion a year, the revenue contribution of 800,000 immigrants covers costs for just ten days each year. If we add 200,000 immigrants, the revenue contribution goes to $32.2 billion, meaning revenue from immigrants covers three more days, for a total of thirteen days a year—one day less than two weeks. Not much of a gain.

Economists make such comparisons for perspective's sake all the time. Presumably Moore knows enough to make these sorts of calculations. So why didn't he?

And why is it none of the immigrationists who cited Moore thought to look into this? Either the question of how big these alleged revenue gains are compared to Social Security's total future revenues never occurred to them, which means they are shallow and economically illiterate, or they realized that putting things in perspective like this lets the hot air out of their claims, which means they are intellectually dishonest. Both explanations are possible. Neither does them credit.

A penetrating look at Moore's study, then, reveals that the contribution immigrants make to Social Security's revenues is modest. Cinderella's glittering carriage of immigration-generated revenue is in reality a pumpkin, and a small pumpkin at that.

This result should not surprise us. As we saw in Chapter 1, Social Security is projected to be able to pay only 73 percent of costs by 2041. In 1998 the Office of the Actuary informed this writer that the long-term actuarial deficit under intermediate assumptions, in 1998 dollars, was about $3 trillion.[18] And as we see from Table 1, by 2020, Social Security will be running substantial and rapidly rising cash deficits, running in the hundreds of billions of dollars, whether measured in current dollars or constant 1998 dollars. And all of these unhappy outcomes *assume that net immigration continues at current levels of 900,000 a year every year for the next 75 years!*

From this it inescapably follows that immigrants are *not* "keeping Social Security afloat." Their revenue contribution through 2072 as calculated by Moore will not "effectively keep it afloat." Immigration is not "an essential component to solving the long-term problem of financing Social Security." It is not "the only way for Social Security to remain solvent." Immigrationists such as Tamar Jacoby who make these claims either do not know what they are talking about or are being duplicitous.

There's more. Moore warns that an immigration cutoff means a revenue loss of$1,934 billion over 75 years. But it turns out that this is just 3.6 percent of the total revenue over 75 years. Obviously, Moore's own *figures* imply that an immigration cutoff would hardly affect Social Security!

Our own finding is that cutting immigration by 100,000 implies a revenue loss of $211.8 billion. Multiplying by 8 implies that an immigration cutoff means a revenue loss of $1,694 billion-only 3.1 percent of the total. And if we cut annual net immigration from 800,000 to 200,000, this means a revenue loss of $211.8 billion times 6, or $1,270.8 billion, just 2.4 percent of total revenue.

When we put Moore's figures in perspective, then, we find that not only is immigration hardly Social Security's savior, adoption of a restrictionist immigration policy would not seriously weaken Social Security.

Finally, Moore's trumpeting about immigration's importance for Social Security is almost disingenuous. Moore had first used this method in 1990 in a study for the Alexis de Tocqueville Institute. But in October 1996 he took part in a forum about Social Security reform in which he went on record as saying that Social Security should give workers a privatization "exit option" of leaving the program and putting all their taxes in a "private investment account" to capture higher returns. In 1998 Moore touted immigration again as essential to saving a program which he had already proposed privatizing anyway.

Moore's study is dubious in another respect. He quotes a 1998 report by William W. Beach and Gareth G. Davis of the Heritage Foundation's Center for Data Analysis, "Social Security's Rate of Return for Hispanic Americans," as concluding that "Without the Hispanic population, the entire Social Security pay-as-you-go system with current workers paying for the benefits of current retirees could founder."[20] This quotation does not appear anywhere in this Heritage report.

Moore is still making similar claims about immigration's contribution to Social Security's finances. In his prepared statement for the September 7, 2001 Senate Judiciary Committee hearings on U. S.-Mexico migration discussions, Moore asserted, without support or argument, that "If we were to curtail all immigration for the next 25 years it would blow about a $1 .5 trillion larger hole in the Social Security deficit.'2 Again, a freestanding number which looks impressive but has to be compared to total revenues and costs in order to ascertain its true significance. And as should by now be clear, such claims do not deserve to be taken seriously.

Other Claimed Revenue Gains: More Chicken Feed

Sundry immigrationists have made other claims about the contributions immigrants make to Social Security's revenues. The Urban Institute did a study in the early 1990s which claimed that in 1990 "undocumented" (i.e., illegal) immigrants paid $2.7 billion in Social Security taxes. Predictably, this finding was seized upon by immigration advocates such as the American Immigration Law Foundation and the Illinois Coalition for Immigrant & Refugee Rights.[22]

A *Washington Post* article reported that the Social Security Administration's "suspense file" of employee earnings returned by the SSA's computers, usually because of discrepancies between the employee's name or Social Security number and those in the SSA's records, accounted for $1.2 billion in Social Security taxes in 1990, nearly $4 billion in 1998, and over $20 billion in the 1990-1998 period. Since roughly half the workers in the "suspense file" were employed by industries reputed to be heavy employers of illegals—agriculture, restaurants and bars, and low skill service employers such as custodial companies—the *Post* deemed this "striking evidence" of multimillion-dollar tax payments by illegals. Never mind that the article leaned on inferences that the *Post* had no way of substantiating. Unsurprisingly, the Conference of Catholic Bishops cited the *Post* piece in arguing for legalizing illegal immigrants.[23]

As should by now be clear, even if these numbers are right, they are drops in the bucket of Social Security's current total revenues and expenditures, let alone the truly oceanic ones that are coming. Social Security's total revenue from payroll taxes for 1990-1998 was $3,149.8 billion ($3.15 trillion). Even if all the money in the SSA's "suspense file" came from illegals, which of course it didn't, this would be 0.63 percent of total payroll tax revenue for that period. Chicken feed. As for the $2.7 billion from illegals claimed by the Urban Institute, this too is simply pitiful. It comes to 0.91 percent of the $296.1 billion in payroll tax revenues for 1990. In that year Social Security paid $247.8 billion in benefits, or $679 million a day.[24] The illegals' alleged revenue contribution would have covered benefit costs for just four days. So what?

Again, the ignorance about Social Security disclosed here is startling and disturbing. So is the crass failure to put these dollar figures in perspective. Apparently the immigrationists pointing to these claims for revenue from immigrants simply have no idea how big Social Security's revenues and expenditures really are. And it apparently has never occurred to them to find out, much less spend five minutes looking at a data table and doing a little arithmetic.

Summary

Although immigrationists make much of the revenue contributions immigrants supposedly make to Social Security, the study by Stephen Moore on which they heavily rely is unsound and the revenue gains he claims are unimpressive when put in context. Other claimed immigrant payments of Social Security taxes are even less significant.

Using the immigrationists' own numbers, the immigrants' current and projected contributions to Social Security's finances are chump change. Which makes nonsense of their strident assertions of immigration's indispensability for Social Security.

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[1] Stephen Moore, *A Fiscal Portrait of the Newest Americans* (Washington: National Immigration Forum and Cafe Institute, 1998), pp. 1-3.

[2] Ibid. pp. 13-14.

[3] Ibid., p. 14.

[4] Ibid., pp. 1415.

[5] "AILA Fact Sheet: Soda Impact Of Immigrants," www.jackson-hertogs.com.

[6] Joseph Law Firm, "Social Impact of Immigrants," www.immigrationissues.com.

[7] Gary Endelman, "Immigration and the Graying of America," www.ilw.com. Endelman's article was also posted on the Siskind, Susser, Haas & Devine web site, www.visalaw.com.

[8] Gary Endelman, "A Time for Hope: Immigration and National Security," www.ilw.com.

[9] American Immigration Law Foundation, "U.S. Benefits From Foreign-Born," p. 2; "Immigrants and Health Insurance," p. 3. All at www.ailf.org.

[10] National Immigration Forum, "Immigrants and the Economy," at www.immigrationforum.org.

[11] Walter Ewing, "Immigration Policy for the 21st Century: The Case for Legalization of Undocumented Immigrants," Migration and Refugee Services, United States Conference of Catholic Bishops, p. 15, at www.nccbuscc.org; Philip Peters, "What Works? III. Immigration and the U.S. Economy," June 1999, pp. 4-5, at www.lexingtoninstitute.org.

[12] Tamar Jacoby, "Too Many Immigrants?" *Commentary*, April 2002 p.41.

[13] Robertson, *Social Security: What Every Taxpayer Should Know*, p.

115.

[14] 2002 OASDI Annual Report, pp. 136-137, 194-195.

[15] Table 1 source: *1998 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* [hereafter, *1998 OASDI Annual Report*], pp. 175-176, Table 111.B1 - Selected Economic Variables by Alternative, Calendar Years 1997-2075; pp. 181-182 Table lll.B4.-Estimated OASDI and HI Income Excluding Interest, Outgo, and Balance in Current Dollars by Alternative, Calendar Years 1998-2075.

[16] Table 2 source: *1998 QASDI Annual Report*, pp. 134, Table II.G3.-Estimated OASDI Income Rates, Cost Rates, and Actuarial Balances, Based on Intermediate Estimates With Various Net-Immigration Assumptions.

[17] E-mails and telephone call by author to Office of the Actuary, Office of Long-Range Actuarial Balances, November 20, 2002.

[18] Telephone conversation with Joseph F. Faber, Social Security Administrator, Office of the Chief Actuary, Office of Long-Range Actuarial Estimates, August 31, 1998, confirmed by letter of September 1, 1998.

[19] Moore, *Fiscal Portrait*, p. 30, n. 48; Vernon M. Briggs, Jr. and Stephen Moore, *Still on Open Door? U.S. Immigration Policy and the American Economy* (Washington: American University Press, 1994), pp. 89-90, 93; Stephen Moore, "Privatize or Bust: Yes on individual accounts, in "Netizen: Rewiring: A Forum on Our Future," October 1996, p. 4, at hotwired.lycos.com/netizen/rewiring.

[20] Moore, *Fiscal Portrait*, p. 16; see p. 31. n. 52, 53. Compare to William W. Beach and Gareth G. Davis, "Social Security's Rate of Return for Hispanic Americans, The Heritage Foundation, Center for Data Analysis, report # CDA98-02, March 27, 1998. This report is available on the Heritage Foundation web site. The skeptical reader is invited to see for himself.

[21] U.S. Congress, Senate, Committee on the Judiciary, U.S. -*Mexico Migration Discussions: An Historic Opportunity Hearings before the Senate Committee on the Judiciary*, 107th Cong., 1st sess., September 7, 2001, p. 67.

[22] American Immigration Law Foundation, "The Value of Undocumented Workers," p. 3, www.ailf.org; Illinois Coalition for Immigrant & Refugee Rights, "Fact Sheet: Immigrants, Work and Welfare," July 24, 1998, p. 1.

23 "Illegals Boost Tax Coffers by Millions; Fear of INS Action Often Keeps Workers From Seeking Refunds," *Washington Post*, April 15, 2001; Ewing, "Immigration Policy for the 21st Century: The Case for Legalization of Undocumented Immigrants," p. 14.

[24] *2002 OASDI Annual Report*, p. 134, Table VI.A4. -Historical

Operations of the Combined OASI and Dl Trust Funds, Calendar Years 1957-2001.

CHAPTER FOUR:
PROPPING UP THE DEMOGRAPHICS MEANS AN IMMIGRANT FLOOD

All we need to do to save Social Security, so some immigration advocates say, is prop up the declining worker/beneficiary ratio by adding immigrants. For example, in American Demographics, the publisher, Peter Francese, observed, correctly, that the retiree population is growing faster than the worker population. Then he added: "One way to ease this problem is to admit enough young immigrants to keep the worker/retiree ratio where it is today."[1]

It sounds so reasonable. Indeed, on a simple minded, intuitive level, it seems like the obvious answer. In trouble because your worker/beneficiary ratio is declining? Just add more workers and push the ratio back up. But a little arithmetic reveals that Francese's proposal, if adopted, would drown America in a flood of immigrants.

Here Comes the Flood

In 1993, the ratio of taxpaying workers to Social Security beneficiaries was 3.3. In 2000, it was 3.4. Let's use the latter figure to examine Francese's proposal, since its pretty close to 3.3 and more recent. How many immigrants would we need to keep the ratio of workers to beneficiaries at 3.4?

This is a fairly easy question to answer. The Social Security actuaries project populations for workers and beneficiaries in future years, and from these they calculate the worker-beneficiary ratio. We will use the figures generated by their intermediate or "most likely" actuarial assumptions. Remember that the intermediate assumptions already assume an annual net immigration of 900,000.[2] This figure, then, is already factored into the actuaries' calculations of projected labor force and the declining worker/beneficiary ratio.

We have a target ratio of 3.4. So the formula we use

$$(CW + LFl) / B = 3.4$$

where CW is the population of covered workers (workers participating in Social Security-i.e., paying Social Security taxes) projected for a given year, B is that year's projected population of beneficiaries, and LFI is the Labor Force Increment-the additional number of workers who would have to be in the labor force that year in order to make that year's worker-beneficiary ratio 3.4.

For example, in 2005, under intermediate assumptions, the actuaries project 157,530,000 workers and 48,099,000 beneficiaries, for 3.3 workers per beneficiary.[3] Expressing quantities in thousands so we won't need to write three zeroes, we have:

$$(157,530 + LFI)/(48,099) = 3.4$$
$$157,530 + LFI = (48,099)\ (3.4)$$
$$LFI = [(48,099)3.4)] - 157,530$$
$$LFI = 6,007$$

In other words, in order for the worker/beneficiary ratio to be 3.4 in 2005 rather than 3.3, besides the 157,530,000 workers already projected, another 6,007,000 workers would have to be in the labor force that year. They would be (a) adult, employed, taxpaying immigrants who arrived in 2005 *over and above* the 900,000 immigrants already projected for 2005, plus (b) adult, employed, taxpaying immigrants who arrived in previous years above the *already-projected* 900,000 in these years, plus (c) adult, employed children of the additional immigrants of previous years.

This calculation is *not* saying that we would have to take in an additional six million immigrants in 2005. Rather, immigration high enough to maintain 3.4 workers per beneficiary means *enough immigration to make the labor Force in 2005 six million workers larger than projected by Social Security's actuaries.*

To find out how many extra immigrants would have to come each year, we need to dig a little deeper. Since the LFI gives us the augmentation to the labor force needed each year to keep the ratio at 3.4, all we need to do is calculate the LFI for two consecutive years and take the difference between them to see how many immigrants had to arrive and become workers paying Social Security taxes during the second year to keep the ratio constant. The formula is:

$$LFI(1) — LFI(0) = Al(1)$$

where LFI(0) is the Labor Force Increment in the base year (year zero), LFI(1) is the LFI in the next year and Al is the Additional Immigration in that year, *above* the 900,000 immigrants already assumed. For the following year, LFI(2) - LFI(l) = Al(2). And so on.

Let's do that for the next thirty years, which is when the Baby Boomers will retire. Using 2001 as our base year, since that is the latest year for which historical data are available, we see that aside from the large initial jump in 2002, the annual additions to the labor force from immigration are small at first-a few hundred thousand. But as the Baby Boomers retire and the worker-beneficiary ratio collapses, the annual immigration needed to prop the ratio back up quickly becomes enormous, hitting 2.8 million in 2010 and nearly doubling by 2020 (see Table 1).[4]

TABLE 1:

Covered Workers, Beneficiaries, and Workers per Beneficiary (Intermediate Assumptions), with Labor Force Increment, Additional and Total Immigration, Calendar Years 2001-2030 (populations in thousands)

CALENDAR YEAR	CW	B	CW/B RATIO	LFI	AI	TI
2001	153,477	45,668	3.4	-	-	-
2002	152,461	46,239	3.3	4,752	4,752	5,652
2003	153,806	46,837	3.3	5,440	688	1,588
2004	155,726	47,435	3.3	5,553	113	1,013
2005	157,530	48,099	3.3	6,007	454	1,354
2006	159,285	48,813	3.3	6,679	672	1,572
2007	161,012	49,606	3.3	7,648	969	1,869
2008	162,689	50,544	3.2	9,161	1,513	2,413
2009	164,145	51,653	3.2	11,475	2,314	3,214
2010	165,443	52,865	3.1	14,298	2,823	3,733
2011	166,540	54,166	3.1	17,624	3,326	4,226
2012	167,306	55,541	3.0	21,533	3,909	4,809
2013	168,132	56,965	3.0	25,549	4,016	4,916
2014	168,953	58,463	2.9	29,821	4,272	5,172
2015	169,688	60,020	2.8	34,380	4,559	5,459
2016	170,310	61,649	2.8	39,297	4,917	5,817
2017	170,901	63,350	2.7	44,489	5,192	6,092
2018	171,529	65,101	2.6	49,814	5,325	6,225
2019	172,204	66,890	2.6	55,222	5,408	6,308
2020	172,848	68,699	2.5	60,729	5,507	6,407
2021	173,437	70,489	2.5	66,226	5,497	6,397
2022	173,846	72,268	2.4	71,865	5,639	6,539
2023	174,340	74,026	2.4	77,348	5,483	6,383
2024	174,861	75,728	2.3	82,614	5,266	6,166
2025	175,421	77,365	2.3	87,620	5,006	5,906
2026	175,963	78,920	2.2	92,356	4,745	5,645
2027	176,387	80,392	2.2	96,946	4,590	5,490
2028	176,926	81,750	2.2	101,024	4,078	4,978
2029	177,500	84,070	2.1	104,591	3,567	4,467
2030	178,131	84,070	2.1	107,707	3,116	3,916

Source: *2002 OASDI Annual Report*

Indeed, from 2013 through 2028, additional adult immigration would exceed four million a year; it would exceed five million a year in 2017-2025. When we add the 900,000 net immigrants already assumed for each year under the intermediate analysis, we get immigration levels exceeding five or six million for most of these years (column TI). And it is important to note that the additional immigrants in the AI column are only employed adults paying Social Security taxes. Factoring in minor children and elderly adults, we could easily get immigration levels up to seven million a year or more.

A flood, indeed.

Immigrants Get Old, Too

That isn't the end of it. As immigration restrictionists such as Peter Brimelow, Roy Beck and John 0'Sullivan point out, the immigrants will eventually retire and go on Social Security too, and their retirement too will have to be financed, If we don't want the aging population problem to return, we need fresh infusions of young workers. Which means still more immigrants must come in to support those who came earlier.[5]

How many? The foregoing calculations can give us an idea. As is well known, immigrants are relatively young, mostly in the 10-39 age range, with a modal age of about 25,[6] so we assume their average age is 25. So, to keep the calculations simple, we assume that the entire additional annual immigration (AI) in a given year is 25 and retires at age 67, which as of 2027 will be the age at which one can retire and collect full Social Security benefits. In other words, the additional annual immigration in a given year will enter the beneficiary population 42 years later. The immigrants who arrive and become OASDI taxpayers in 2002, for example, will become beneficiaries in 2044. We assume we still want to hold the worker/beneficiary ratio constant at 3.4. So our formula for a given year—call it year (t) — is:

$$[CW(t) + LFI(t)] / [B(t) + AI(t-42)] = 3.4$$
$$LFI(t) = [B(t) + AI(t-42)]\ 3.4 - CW(t)$$

or more simply,

$$LFI(t) = IAB(t)\ 3.4 - CW(t)$$

where IAB(t) is the Immigration-Augmented Beneficiaries of year (t), that is, the sum B(t) + AI(t-42).

TABLE 2:

Covered Workers, Beneficiaries, and Workers per Beneficiary (Intermediate Assumptions), with Immigrant-Augmented Beneficiaries, Labor Force Increment, Additional and Total Immigration, Calendar Years 2050-2080 (populations in thousands)

CALENDAR YEAR	CW	B	IAB	LFI	AI	TI
2050	189,845	94,109	95,622	135,270	2,906	3,806
2051	190,389	94,622	96,936	139,193	3,923	4,893
2052	190,867	95,195	98,018	142,394	3,201	4,101
2053	191,316	95,808	99,134	145,740	3,346	4,236
2054	191,771	96,438	100,347	149,409	3,669	4,569
2055	192,259	97,072	101,088	151,440	2,031	2,931
2056	192,758	97,704	101,976	153,960	2,520	3,420
2057	193,214	98,330	102,889	156,609	2,649	3,549
2058	193,657	98,947	103,854	159,447	2,838	3,738
2059	194,115	99,562	104,754	162,049	2,602	3,502
2060	194,568	100,177	105,502	164,139	2,090	2,990
2061	195,031	100,791	106,199	166,046	1,907	2,807
2062	195,478	101,428	106,935	168,101	2,055	2,955
2063	195,904	102,090	107,587	169,892	1,791	2,691
2064	196,332	102,752	108,391	172,197	2,305	3,205
2065	196,739	103,419	108,902	173,528	1,331	2,231
2066	197,139	104,086	110,018	176,922	3,394	4,294
2067	197,538	104,752	109,758	175,639	-1,283	-303
2068	197,924	105,415	110,160	176,620	981	1,881
2069	198,307	106,071	110,661	177,940	1,320	2,220
2070	198,687	106,723	110,801	178,036	96	996
2075	200,496	109,896	112,184	180,930	303	1,203
2080	202,238	112,895	113,497	183,652	804	1,704

Source: *2002 OASDI Annual Report*

The results for selected years are in Table 2.[7] We saw that when the Baby Boom generation retired in 2010-2030, a massive run-up in additional annual immigration was required to maintain the worker/beneficiary ratio at 3.4. It stands to reason that when these immigrants retire 42 years or so later, another surge of immigrants will be needed to support them while maintaining the ratio. Sure enough, the data clearly show this echo effect in 2050-2070.

Admittedly, in the 2010s and beyond, some of the annual immigration is actually adult children of the additional immigrants who arrived earlier (an immigrant 12 years old in 2002 would be 20 in 2010) so AI and TI figures beyond about 2010 should be understood to include adult children of immigrants. One might argue that the additional immigrants in the near future might produce enough children to support their retirements, making another huge wave of immigration beginning in 2050 unnecessary to keep Social Security afloat. Perhaps, but whether the second surge after 2050 is composed largely of

new immigrants or the children of earlier immigrants entering adulthood is in a sense irrelevant. The effect is the same: a massive increase in the labor force, traceable to immigration.

How massive? By 2080 the cumulative increment to the taxpaying labor force is 183.6 million persons, making the labor force in 2080, 385.9 million, over 90 percent larger than it would be under the actuaries' intermediate assumptions, and two and a half times bigger than 2001's labor force of 153.5 million. So to sustain today's worker-beneficiary ratio as Francese proposed, we would have to more than double our labor force by 2080, by adding 183.6 million immigrants and their adult children. Figure 1 depicts the huge difference immigration would make.

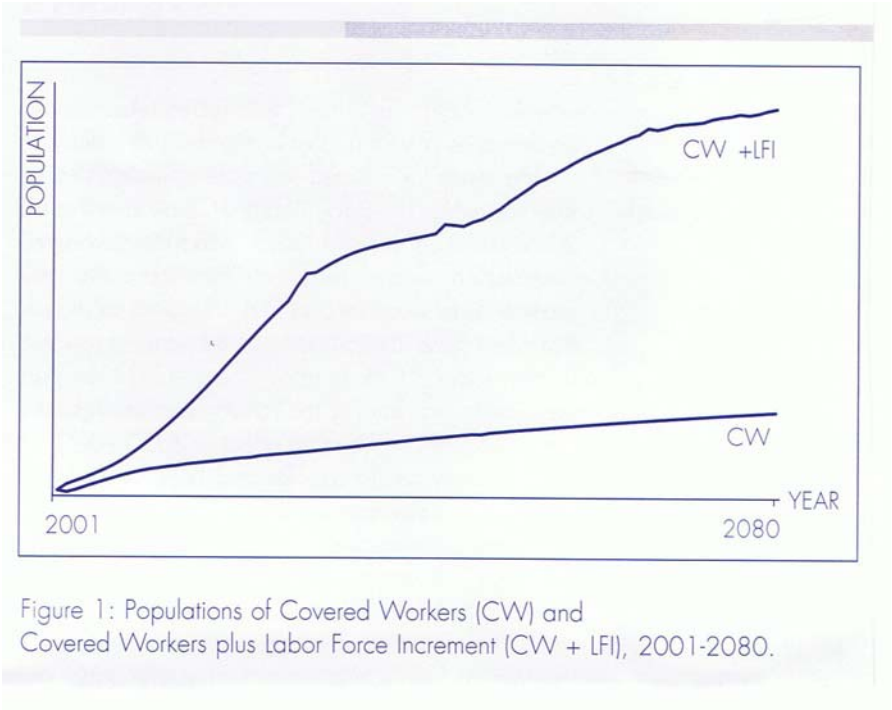

Figure 1: Populations of Covered Workers (CW) and Covered Workers plus Labor Force Increment (CW + LFI), 2001-2080.

Moreover, which is very important, the Al and TI figures greatly understate *total* immigration, because LFI and AI figures include only employed, adult, taxpaying immigrants, and omit minors, unemployed spouses, and elderly relatives. These persons would add tens of millions to the growth in Americas total population. If just one such immigrant arrived for every additional adult immigrant in 2010-2030, we would see total annual immigration levels in those years ranging from six to eleven million.

Could America possibly absorb such gigantic numbers?

A Puzzling Performance

Now, as the saying goes, one does not need to be a rocket scientist to figure this out. Common sense would tell us that if the number of workers per beneficiary is projected to collapse, offsetting this would require increasing and eventually gargantuan additions to the labor force—and that this would translate into annual immigration rapidly rising to very high levels.

Moreover, these are not difficult calculations to make. Any competent high school algebra student can do them. The mystery is why the publisher of a magazine on American demographics did not think of this obvious problem, and why he did not get out his calculator and do the foregoing number-crunching.

Surely this is the sort of thing that would occur to a publisher of a demographics magazine, who presumably is familiar with demographic trends and their implications. And surely these are the sorts of calculations such a person would do. Indeed, for someone in the demographics field, such thinking and figuring is all in the day's work.

Instead, Francese elaborated on his proposal with the observation that if we admitted "the same proportion of immigrants as Canada does," we would be taking in two million a year instead of one million.

It's not clear what he means by "proportion" (immigration as share of population? of labor force?), but never mind. He immediately adds the following: "The additional people and their offspring, if chosen carefully, would surely pay a lot of Social Security taxes. Perhaps they could even keep our system solvent."[8] And that's literally all the argument he made.

This is incredibly feeble stuff. Note the speculative language: "would surely," "perhaps." Not even a stab at estimating how much Social Security revenue the two million immigrants a year would contribute. Just "a lot." This is the level of rigor one would expect in a high school term paper. Moreover, as we saw, doubling annual immigration to two million won't remotely suffice to keep the worker/beneficiary ratio at today's level. Francese's argument gives a strong impression of being tossed off without being thought through.

Summary

The idea of offsetting the aging of America's population with immigrants is appealing on a superficial level, but turns out to be reckless and unrealistic. Carrying it out would require swamping America with immigrants. And here again, we see immigrationists making slapdash and shallow arguments.

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[1] Peter Francese, "Publishers Note: Social Security Solution," *American Demographics*, February 1993, p. 2.

[2] *2002 QASDI Annual Report*, p. 77.

[3] Ibid., pp. 52-53, Table IV.B2. - Covered Workers and Beneficiaries, Calendar Years 1945 2080.

[4] Table 1 source: *2002 OASDI Annual Report*, Table IV.B2. - Covered Workers and Beneficiaries, Calendar Years 1945-2080, annual figures, available at http://www.ssa.gov/OACT/TR/TR02/lr4B2-2. html.

[5] Peter Brimelow, *Alien Nation: Common Sense About America's Immigration Disaster* (New York: Random House, 1995), p. 154;

Beck, *The Case Against Immigration*, p. 152; John O'Sullivan, "Ponzi Party: Immigration and an old con," *National Review*, August 30, 1999, p. 24.

[6] "The Second Great Migration: Economic and Policy Implications," Federal Reserve Bank of Dallas *Southwest Economy*, Issue 3 (May/June 2000), p. 5; James P. Smith and Barry Edmonston, eds., *The New Americans: Economic Demographic and Fiscal Effects of Immigration* (Washington: National Academy Press, 1997), pp. 54-55, 303.

[7] Table 2 source: *2002 OASDI Annual Report*, Table IV.B2.-Covered Workers and Beneficiaries, Calendar Years 1945-2080, annual figures, available at http://www.ssa.gov/OACT/TR/TRO2/lr4B2-2.html.

[8] Francese, "Publisher's Note: Social Security Solution."

CHAPTER FIVE:
NO ANSWER - BY THEIR OWN METHOD:
WATTENBERG AND THE SENSITIVITY TEST

Recall Wattenberg's statement that roughly doubling our intake of immigrants, from one million to two million, would cut Social Security's shortfall by 28 percent, saving $1 .4 trillion. He intends this as a boast about immigration's contribution to Social Security. Actually, its an admission that immigration is no answer.

The Immigration Sensitivity Test

To understand why, recall that Social Security's actuaries make "sensitivity tests" to see how important various assumptions are for their calculations. The immigration sensitivity test in Social Security's *Annual Report* for 2002 replaced the "intermediate" assumption of 900,000 net immigrants a year with the "high cost" assumption of 655,000 net immigrants, kept all other variables at their levels assumed in the intermediate analysis, and calculated new cost and income rates and actuarial balances for 2002-2026, 2002-2051, and 2002-2076. Then the actuaries repeated the calculations, this time replacing the intermediate assumption with the "low cost" assumption of 1,210,000. Table 1 shows the results.[1]

TABLE 1:

Net Immigration Sensitivity Test, 2002 Actuarial Analysis
(as a percentage of taxable payroll)

	Net immigration per year		
Valuation period	655,000	900,000	1,210,000
Summarized income rate:			
25-year: 2002-2026	14.23	14.21	14.19
50-year: 2002-2051	13.84	13.82	13.79
75-year: 2002-2076	13.74	13.72	13.68
Summarized cost rate:			
25-year: 2002-2026	13.07	12.98	12.86
50-year: 2002-2051	14.95	14.77	14.55
75-year: 2002-2076	15.80	15.59	15.34
Actuarial balance:			
25-year: 2002-2026	+1.16	+1.24	+1.33
50-year: 2002-2051	-1.11	-.95	-.76
75-year: 2002-2076	-2.06	-1.87	-1.65
Year of OASDI trust fund exhaustion	2039	2041	2043

Source: *2002 OASDI Annual Report*

The sensitivity test for 2002 found that if a net immigration level of 1,210,000 is assumed rather than 900,000, the long-term actuarial deficit falls from -1.87 percent of taxable payroll to -1 .65 percent, down 0.22 percent of taxable payroll (down 12 percent).

This implies that for every 100,000 additional net immigrants above the "intermediate" assumption, the long-term actuarial deficit drops by roughly 0.07 percent of taxable payroll. The reason the cost rate drops when net immigration increases is that immigrants are relatively young, so immigration will increase the population of taxpaying workers before it increases the beneficiary population.[2]

By this reasoning, if we accept a million more immigrants a year the deficit would drop by 0.7 percent of payroll — or 37 percent of -1.87.

Although Wattenberg does not explain how he got his figure, he (or somebody else, if Wattenberg did not do the number-crunching himself) almost certainly did it this way. The 1997 Annual Report, the latest report to appear before his article, had a long-term actuarial deficit (intermediate assumptions) of -2.23 percent of taxable payroll, which the "low cost" immigration assumption trimmed to -2.10, implying that every 100,000 additional immigrants cuts the actuarial deficit by 0.06 percent of payroll.[3] Adding a million shaves it by 0.6 percent of payroll, or 27 percent-close to his 28 percent. Some other year's report might have been used to generate the numbers behind VVattenberg's argument, but this is close enough.

What the Sensitivity Test Really Implies

So the sensitivity test is the foundation of Wattenberg's claim about what immigration can do to help Social Security. Making this clear is important, because using the sensitivity test as a basis for this argument is unsound.

The implications of the sensitivity test deflate immigrationist claims. For one thing, we saw that adding a million extra immigrants cuts Social Security's long-term actuarial deficit by only 27 percent (using 1997 figures) to 37 percent (using 2002 figures) — obviously, not remotely enough to "save Social Security."

Moreover, the test implies that *eliminating* Social Security's actuarial deficit through immigration would require vastly more immigration. If a million additional immigrants knock 37 percent off the actuarial deficit, then eliminating it altogether requires an additional 2.7 million net immigrants every year. Add the 900,000 already assumed, and we get total annual net immigration of 3.6 million — *quadruple* the level assumed by the intermediate actuarial analysis, and about quadruple today's net immigration. Over the 75-year period, this means *270 million immigrants*, which would almost double America s current population, for a total population of 557 million by 2076.

This result has been independently confirmed by the Employee Benefit Research Institute. Using an econometric simulation model called SSASIM, varying the assumed level of annual net immigration and holding all other variables constant at the intermediate level, Craig Copeland of EBRI got results very close to those which Social Security's actuaries achieve with their sensitivity tests. Copeland used figures from the 2001 OASDI *Annual Report* and found that if he assumed annual net immigration of 1,800,000 rather than 900,000, the long-term actuarial deficit would drop from -1.86 percent of taxable payroll to -1.36 percent, and that if he assumed annual net immigration of 3,600,000,

TABLE 2:

Summary of Sensitivity Test Results, 2002 Actuarial Analysis
(as a percentage of taxable payroll)

	Actuarial deficit generated by variable's assumed level		
Variable tested	High cost	Intermed.	Low cost
Death rate	-2.67	-1.87	-1.21
Real interest rate on OASDI's bonds	-2.48	-1.87	-1.35
Real wage growth	-2.37	-1.87	-1.36
Disability incidence	-2.16	-1.87	-1.59
Fertility	-2.16	-1.87	-1.60
Inflation	-1.65	-1.87	-2.09
Net immigration	-2.06	-1.87	-1.65
Disability termination	-1.91	-1.87	-1.83

Source: *2002 OASDI Annual Report*

the actuarial deficit would decline to -0.61 percent.Copeland concluded that "significantly increasing net immigration could be an effective way to greatly improve the funding status of the Social Security program," but he had the intellectual honesty to point out that "the change in the level of net immigration would have to be persistent, not transitory."[4]

So another Social Security researcher, who has no anti-immigration agenda and is perhaps even sympathetic to increased immigration, gets the same result: in order to eliminate Social Security's long-term financial shortfall through immigration, we would have to at least quadruple annual net immigration, every year, for 75 years.

But what does the sensitivity test say about lower levels of immigration? Here things get interesting. The 2002 sensitivity test reveals that assuming a permanently lower level of immigration of 655,000 as opposed to 900,000, a reduction of 245,000, or 27 percent, raises the actuarial deficit from -1.87 to 2.06, an increase by 0.19 percent of taxable payroll, or just 10 percent. This implies that every 100,000 fewer immigrants increases the actuarial deficit by 0.08 percent of taxable payroll.

Let's run Wattenberg's reasoning in the other direction. The previous paragraph's result implies too that if net immigration were assumed at a permanent level of just 200,000, which is a decrease of 78 percent from the assumed 900,000 land which is where many restrictionists want it, and where it was before the Immigration Act of 1965, this adds 0.56 percent of taxable payroll to the actuarial deficit, raising it from -1.87 to -2.43, an increase of 30 percent. A serious increase, certainly, but not a catastrophe. If immigration really were Social Security's salvation, we would expect the actuarial deficit to—what? Double? Triple? But somehow it doesn't.

Adding it all up, we see, using the 2002 figures, that to cut Social Security's actuarial deficit by 37 percent, we'd have to *more than double* annual net immigration, and to eliminate the deficit we'd have to quadruple it — but if we cut net immigration down to restrictionist, pre-1965 levels, the actuarial deficit rises by just 30 percent. So in order for immigration to eliminate the actuarial deficit, it would have to be applied in mammoth doses—and the need for mammoth doses means the medicine is awfully weak. (What else could it mean?) Yet cutting the dosage way back (assuming pre-1965 levels of net immigration) *doesn't* kill the patient. All of which points to only one possible conclusion: the immigration medicine for Social Security just doesn't pack much of a wallop.

Note that the actuaries project a substantial long-term actuarial deficit *even assuming net immigration of 900,000 a year*. If immigration is "keeping Social Security afloat," as immigrationists claim, why is this the case? If immigration is so vital for saving Social Security, why does eliminating this deficit require so much more of it? And if immigration is already making such important contributions to Social Security's finances, how come Social Security's actuarial deficit does not explode off the charts if we assume very low net immigration levels?

The sensitivity test is really telling us that immigration isn't so crucial in Social Security's scheme of things after all. Which is a sign that immigration enthusiasts who invoke the sensitivity test don't know what they're doing.

The Immigration Sensitivity Test in Context

Since Social Security's actuaries make sensitivity tests for several variables, it would obviously be very illuminating to find out how sensitive the long-term actuarial deficit is to each one. Collecting all the tests results and comparing them would tell us how important the immigration assumption is compared to the others. So in Table 2 we present the long-term actuarial deficits which the actuaries calculated for each sensitivity test in their analysis for 2002.

We have ranked the tests by the size of the swing in the actuarial deficit they produce, so as to disclose their relative effects. We see that varying the death rate assumption most powerfully affects the actuarial deficit—which is exactly what we would expect, given that increased longevity is a key element in driving up Social Security's costs. Changes in assumed levels of the Vo1~oble5 affecting Social Security's resources—real wages and interest on Social Security's bonds—have the next strongest effects, which is not surprising either. The fertility assumption, again unsurprisingly, makes a big difference, too. So does the incidence of disability, which is obviously crucial for Disability Insurance outlays.

But notice that changing the assumed level of every other variable except for disability termination and inflation makes a larger, and often *considerably* larger, impact an the actuarial deficit than changing the immigration assumption does. Put another way, the immigration assumption is almost the least powerful influence on Social Security's long-term *finances*! A strong indicator, one would think, that stepping up immigration is a relatively ineffective way to strengthen Social Security.

An immigrationist might retort that we should investigate an *Annual Report* closer to the date of Wattenberg's article; after all, if the actuaries tinkered with some of their assumptions over the years, this might affect their relative impact on the actuarial deficit. Fair enough.

All right, let's repeat the exercise for the 1997 *Annual Report*'s sensitivity tests, in Table 3.[6]

TABLE 3:

Summary of Sensitivity Test Results, 1997 Actuarial Analysis
(as a percentage of taxable payroll)

Variable tested	Actuarial deficit generated by variable's assumed level: High cost	Intermed.	Low cost
Death rate	-2.93	-2.23	-1.60
Real wage growth	-2.75	-2.23	-1.69
Real interest rate on OASDI's bonds	-2.73	-2.23	-1.80
Fertility	-2.58	-2.23	-1.88
Disability incidence	-2.53	-2.23	-1.92
Inflation	-2.02	-2.23	-2.43
Net immigration	-2.33	-2.23	-2.10
Disability termination	-2.29	-2.23	-2.16

Source: *1997 OASDI Annual Report*

We see very little change in the rankings of the assumptions by their effect on the actuarial balance. And we see that immigration is again one of the least powerful assumptions in terms of its effect on the actuarial balance.

These rankings of the sensitivity tests, and the consistent relative insignificance of immigration, strongly imply that we may have far better policy instruments for improving Social Security's long-term actuarial balance than massively expanded immigration. Clearly, policies to promote wage growth would be far more helpful. So would more stringent standards for awarding disability benefits. Interestingly, we see that changing the fertility assumption consistently has a far more powerful impact on the long-term actuarial deficit than changing the immigration assumption. This implies, one would think, that policies promoting a higher American birth rate—tax incentives for having more children, or a far more generous approach to maternity leave in employment—would be better for Social Security than pouring in more immigrants. Or some combination of all of these might be more promising.

Summary

The moral is clear. Properly understood, the sensitivity test Wattenberg used to tout immigration as the easy solution for Social Security's problems does not support Wattenberg's claims—it debunks them. The immigration levels Wattenberg proposed to save Social Security are inadequate, and the immigration levels which would close the actuarial deficit are enormously high. When the sensitivity test for immigration is compared to sensitivity tests for other actuarial assumptions, it turns out that immigration has one of the weakest effects on the long-term actuarial deficit, implying that other policy options would be far more helpful to Social Security than mass immigration would.

And even if we did swallow those huge immigration levels, we showed in Chapter 2 that eliminating the actuarial deficit does not solve the Social Security problem. There would I be those large annual deficits in the 'out years."

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[1] Table 1 source: *2002 QASDI Annual Report*, p. 149, Table VI.D3 - Sensitivity to Varying Net-Immigration Assumptions.

[2] Ibid., p.150.

[3] 1997 OASDI Annual Report, pp. 137-138.

[4] Craig Copeland, "Social Security: Unemployment and Immigration," *EBRI Notes*, vol. 23, no. 4 (April 2002), pp. 2-4, and p. 4, n 11.

[5] Table 2 source: *2002 OASDI Annual Report*, pp. 146-155.

[6] Table 3 source: *1997 QASDI Annual Report*, pp. 134-144.

CHAPTER SIX:
MASS IMMIGRATION VERSUS PRODUCTIVITY GROWTH

So far, we have established that immigrants' estimated recent contributions to Social Security's revenues are trifling; that their alleged contributions in the future will also be relatively minor; and that either preserving today's worker-beneficiary ratio or closing Social Security's long-term actuarial deficit would require staggering increases in immigration. All of which implies that increasing immigration won't be a very powerful way of strengthening Social Security.

But there is still more to it. Immigration advocates argue as if adding more immigrants has only one, positive effect: they simply get jobs and promptly start propping up Social Security by paying taxes. End of story.

Simplistic Misuse of the Sensitivity Test

This is dangerously simplistic thinking, a classic example of what happens when scribblers with an axe to grind start playing economist. Wattenberg is leaning on something he does not understand: the sensitivity test, which is simply a calculation determining how much changing one figure changes another figure. The actuaries do this to find out how important a given assumption is for their calculations—what difference it makes for their projections if they assume, say, one immigration level instead of another one. From time to time the actuaries modify some of their demographic and economic assumptions to reflect changes in current demographic and economic trends and their beliefs about what these trends will be like in the future. All the sensitivity test does, and all it is intended to do, is tell them how much the actuarial balance will change if they change just one assumption and leave all the others where they are.

Now, this is a perfectly valid and necessary actuarial Operation, but it is not — and does not pretend to be!—an Economic analysis of the effects of immigration on Social Security. As any competent economist knows, in the real word other things do change if immigration greatly increases. Since immigration is a labor-market phenomenon, more immigration will change labor-market variables such as wages and labor productivity. A small increase in net immigration probably won't affect them very much, just as a small pebble tossed into a pond barely ripples the surface. But a huge increase in net immigration—doubling current net immigration, as Wattenberg proposes, or quadrupling it, which is what his approach implies would be necessary to close the actuarial deficit—will necessarily have major impacts on wages, productivity, and so on, just as a huge boulder tossed into the pond creates big waves. These in turn will necessarily affect Social Security's revenues, since it is financed out of taxes on labor income.

The sensitivity test, by definition, cannot capture these effects. Therefore, using the sensitivity test as a basis for pontificating on the purported positive effects that a

doubling or quadrupling of immigration would have on Social Security is completely invalid.

What would the effects on productivity, wages and Social Security's revenues be like? Not only does Wattenberg's approach rely on simplistic misuse of the sensitivity test, it is simplistic in another sense. It is a classic case of simple-minded linear thinking: if some is good, more is better. Increasing net immigration by 100,000 knocks 0.06 percent of payroll off the actuarial deficit, so if we raise immigration by a million, we can really whack that deficit down! And if we quadrupled net immigration, we could solve the problem.

Not necessarily. It isn't that simple. The impact of such massive immigration increases on Social Security's future cash flow depends heavily on how massive immigration affects labor productivity and wages. And these effects would probably be negative.

Productivity and Its Importance for Social Security

Labor productivity is defined as output per worker, or output per man-hour. Obviously, the more and better labors equipment, the more productive it will be. Economists express the relationship between the capital stock and the labor force as the capital/labor ratio (K/L). The higher K/L, the more productive labor is.

Labor productivity growth is important for Social Security's long-run financial health, because Social Security is paid for with taxes on labor income. So obviously the growth of Social Security revenues depends decisively on the growth in labor compensation. Social Security's actuaries address this in terms of real wage growth (real wages, of course, being wages adjusted for inflation).

Sooner or later, productivity growth yields wage increases higher than increases in the cost of living. Because current benefits are adjusted for the cost of living, productivity growth means that Social Security's tax base is growing faster than its current outlays. This means a healthier cash flow, making it easier for Social Security to meet its obligations. The higher earnings resulting from productivity growth will eventually drive up benefit costs, because benefits are based on labor income, but this negative effect will come with a large lag; it won't kick in until the workers enjoying productivity growth today retire.[1]

On the other hand, if labor productivity growth slows down, or if productivity actually drops, this means that earnings growth stagnates, or even declines, which means Social Security's revenue grows slower than current costs, meaning the program has a harder time paying its way.

Immigration, Productivity, and Wages

The National Research Councils famous 1997 immigration study, The New Americans: Economic, *Demographic, and Fiscal Effects of Immigration*, did not devote much attention to the effect of immigration on labor productivity. The NRC assumed that the American economy experiences constant returns to scale — that is, as the quantities of labor and capital are increased, productivity remains the same. This, the NRC's researchers believed, was a reasonable starting point for studying the impacts of

immigration. However, like good economists, they warned that this assumption of constant returns to scale is intended for analysis of marginal changes from the existing situation—that is, for finding out what would happen if immigration increased or decreased by a small amount relative to the existing quantity, which is what economists mean by a "marginal change." Empirical work so far drew, naturally, on historical levels of immigration. "We would not extrapolate far beyond current levels and say that immigration flows much larger than those considered in our demographic projections would always produce economic gains." Whether or not "far larger flows, and over longer periods of time," would generate increasing or decreasing returns to scale could be settled only with "sound empirical evidence."[2] In other words, the NRC's economists were warning that just because they assumed that a small addition to the level of immigration left labor productivity unchanged, it does not follow that a very large increase would have no effect.

So what happens when immigration doubles, quadruples, quintuples, and thus enormously increases the labor force, as would be the case if we followed the advice of immigrationists such as Francese and Wattenberg or the "open borders" advocates at the *Wall Street Journal*? Obviously, unless the capital stock increases at the same rate, K/L must fall. This is not immigrant-bashing, this is basic arithmetic—increase the denominator of a ratio, and that ratio must drop.

It follows inexorably that labor productivity must fall. To illustrate, let's take the simplest possible example. Say you're a widget manufacturer, you sell every widget you make, your factory works one shift, and you have one worker operating one widget machine. You hire another worker, but don't buy another machine. You're working one shift, which has the effect of holding the capital stock constant. The two workers must take turns using the machine, meaning each one can use it only half the time, meaning each worker's hourly widget output—his productivity—is cut in half.

What does this mean for labor incomes? Assuming you hired the new worker at the same wage you pay your first worker, your labor cost has doubled. Obviously, you can't afford to pay them both the original wage unless your output doubles. Unfortunately, output, and sales, of widgets have stayed the same. If you want to stay in business, you must cut the wage in half. Clearly, a massive increase in the labor force, other things equal, means a major decline in labor productivity; and a drop in labor productivity, other things equal, means a proportional decline in wages and labor incomes.

It also stands to reason that if labor is scarce relative to capital, there will be strong incentives to develop labor-saving technology, improve efficiency of operations, and so on to improve the productivity of labor. Indeed, the scarcity of labor in the United States relative to both raw materials and capital was one of the major reasons why America has for centuries led the world in labor-saving innovations and has long had the world's most productive labor.

Several empirical investigations by economists have found a strong negative relationship between labor force growth and labor productivity growth. More recently, Jane Sneddon Little and Robert K. Triest, economists at the Federal Reserve Bank of Boston, investigated the growth rate for labor productivity for the periods 1904-1999, 1904-1949, and 1950-1999 as a function of the growth rate of the population aged 25-65. Little and Triest found that "The relationship between the working-age population growth

rate and the productivity growth rate is consistently negative, large in magnitude, and statistically significant." These results were little affected by adding another variable for changes in the unemployment rate, to account for the variation of productivity over the business cycle. Since 1950, decades of low growth in the population aged 25- 65 were also decades of high productivity growth, and decades of faster population growth saw slowerproductivity growth. The shift from rapid productivity growth during the 1950s and 1960s to much slower productivity growth in the 197Os and 1980s, Little and Triest found, "is surprisingly well 'explained' by the large increase in the growth rate of the working-age population associated with the maturation of the baby boom generation."[3]

This obviously has ominous implications for what the massive annual immigration levels implied by the recommendations of Wattenberg, Francese, et al. will do to American labor productivity. It would be a demographic shift of a magnitude equal or greater to that of the Baby Boom. Labor productivity growth would stagnate accordingly.

But it gets worse. American public education was already deteriorating when the Baby Boomers went to school, but it was incomparably better than the educational background of the overwhelming majority of recent immigrants. Immigration and Naturalization Services data suggest, Little and Triest observed, that immigrants accounted for about 35 percent of U.S. population growth since 1990, and that legal immigration alone accounted for some 40 percent of labor force growth in the mid-1990s, and is projected to continue to contribute heavily to the increase in our working-age population. However, they warn, "the impact of the increased size of the labor force on national output may be attenuated by the large gap between the average educational attainment of the foreign-and the native-born populations." It is well-known that the lion's share of recent immigrants are from Latin America.

Most of these are very poorly educated. While about 11 percent of U.S.-born Americans aged 25-64 have not completed high school, almost 68 percent of Mexican immigrants and about 34 percent from elsewhere in Latin America have not. Although children of Hispanic parents do obtain more education, their educational attainment lags significantly behind that of non-Hispanic whites. The rising share of Hispanics in the working-age population, "may exert a downward pull" on average educational attainment in the labor force. As a result, Little and Triest observe, massive immigration "may curb future productivity gains in this country by slowing improvement in the average educational attainment of the U.S. workforce."[4]

Another aspect of this problem is that most immigrant labor is unskilled and goes into labor-intensive jobs where productivity growth simply isn't going to happen. The technology involved in custodial and janitorial work—brooms, mops, dust rags, scrub brushes, squeegees, vacuum cleaners, and so on—has not improved much n decades and isn't likely to. And there are obvious physiological limits on how quickly one can swing a mop or push a broom, and on how long one can sustain very rapid motion in performing such tasks. The same is true of picking fruits and vegetables. Productivity growth is likewise unlikely in such occupations as dishwasher, security guard, groundskeeper, taxicab driver, fast-food worker, parking valet, and pizza deliverer. As for domestic services, another occupational category in which immigrants are overrepresented, it is laughable to think of productivity growth in babysitting, laundering, and meal preparation. (Is someone going to invent a machine that enables an immigrant nanny to

diaper more babies per hour? A baby's bedroom isn't a factory, and an immigrant employed by a yuppie couple typically cares for only one or two babies. Don't be silly.)

It stands to reason that given existing patterns in immigration, doubling, quadrupling, or quintupling annual net immigration will result in a very large, disproportionate growth in the labor force sector where productivity is low and productivity growth virtually nonexistent. It stands to reason too that such a development will pull down the productivity growth of American labor as a whole.

This is not nativism, this is elementary economic logic. It isn't racism, either; precisely the same outcome would obtain if we flooded America with uneducated, unskilled Europeans.

But what about those highly educated immigrants who go into the information technology sector and do highly productive work such as development of new software?Won't that improve labor productivity? Won't that offset the low productivity of unskilled immigrants? To a degree, yes, of course. But in order to completely cancel out the negative effect of a flood of low-productivity immigrant labor, productivity and productivity growth in the high-skill sector would have to be many times greater than in the low-skill sector. And there would still be a problem of a possible inverse relationship between the number of workers in the IT sector and IT sector productivity growth.

Productivity growth in the information technology sector has exploded in recent years, but there are grounds for skepticism about how long this can be sustained. Northwestern University economist Robert J. Gordon pointed out that the post-1995 productivity surge from computers has largely been confined to the computer and peripherals manufacturing sector and to durable goods manufacturing. Moreover, while computers, software, etc. have become more powerful, there are limits to the productivity gains they will generate. For one thing, the time a human being has available each day to work with the new technology is fixed, and there are natural limits on how quickly people can think and type, meaning that additions to computer power quickly encounter diminishing marginal returns. Also, the potential for replacing human beings with computers is limited because many occupations (e.g., airplane pilot, truck driver) cannot be eliminated. Many services require contact between a human practitioner and a customer or client (e.g., investment banking, law, medicine(or an object (maintenance, custodial, etc.) All these factors, Gordon persuasively argued, put a ceiling on how much productivity growth the new information technology can generate.[5] This being the case, it is unlikely that an influx of immigrant labor into the information technology sector will continuously generate, over the next 75 years, productivity gains big enough to offset the productivity stagnation caused by pouring in tens of millions of low-skill, low-productivity workers.

In addition, there is some empirical evidence that immigration does have a negative effect on labor productivity. Myriam Quispe-Agnoli and Madeline Zavodny, economists at the Federal Reserve Bank of Atlanta, examined how an immigration influx affects the output mix, labor productivity, and capital in manufacturing in a given state, using data from the 1982 and 1992 Census of Manufactures. Quispe-Agnoli and Zavodny assumed that immigrant and native workers within each skill level are perfect substitutes (which is dubious if the immigrants in question have little or no command of English). They found that states having larger increases in the immigrant population share had

smaller productivity gains in both low-skill and high-skill sectors than did states with smaller immigrant inflows. When they included separate variables to see how high-education (high-skill) and low-education (low-skill) immigrants affected things, they found that increases in the low-skill immigrant population drove immigration's impact on labor productivity.[6]

Quispe-Agnoli and Zavodny concluded that changes in the labor supply due to immigration appear to lower labor productivity in both the low- and high-skilled sectors. This finding does not indicate that immigration lowers labor productivity [which blatantly contradicts what they just said!] but rather that labor productivity increased more slowly in states that attracted a larger share of immigrants during the 1980s." They speculated that the "gradual process of assimilation" may account for the slowdown in productivity growth and that immigration's negative effect on productivity "may disappear as immigrants acquire language skills and familiarity with U.S. labor market institutions."[7] Perhaps so, but it looks as if Quispe-Agnoli and Zavodny are bending over backwards to deny their own findings and put a pro-immigrant spin on them. Be that as it may, their findings are another sign that massive immigration bodes ill for productivity growth.

From this it follows that the sort of massive immigration required by the immigrationists' proposals to "save Social Security" will almost certainly inflict productivity stagnation. And given the concentration of immigrants in low-skill, low-productivity occupations, the resultant productivity stagnation will likely be considerably worse than that which we suffered in the 1970s.

Productivity Stagnation and Social Security's Prospects

Productivity stagnation, or even outright decline, is bad news for Social Security's cash flow. Lets go back to our widget maker example. Now, since Social Security taxes you and your workers on their wage income, the decline in productivity translates into lower Social Security revenue per worker. Your two workers work at half the original wage, so Social Security's total tax take from your business is unchanged. The moral is clear: if the capital stock stays the same, adding immigrant workers is offset by the decline in productivity, meaning no gain in Social Security's revenues at all! This is not nativism, this is elementary, rock-bottom economics.

Remember that the whole point of increasing immigration is to get more Social Security revenue. If the new widget-machine worker depresses the wage, to get more revenue we must offset this by raising the tax rate, which is what more immigration is supposed to avoid "easy solution" — right, Mr. Wattenberg?). Maintaining the original revenue without higher tax rates requires maintaining the original wage. But to be able to afford the original wage, you must restore the original productivity level. That means buying another widget machine.

Again, the lesson is obvious. To maintain labor productivity at its current levels, we will have to match the massive infusion of immigrant labor with equally massive additions to our capital stock. And if we seek productivity growth—as of course we do to improve Social Security's outlook—we need even larger additions of capital.

Investment to the Rescue? Not Likely

Where would all this capital come from? Obviously, the immigrants do not bring machine tools and factories with them (if physical capital were that abundant in their home countries, there would be no need for them to come here in search of a better life!). As for human capital, the lion s share of immigrants are not well educated, therefore have only slender stocks of human capital. The huge quantities of capital needed to maintain labor productivity at its previous level would have to be obtained through investment carried out by American business.

How much investment would this require? Investment banker Peter G. Peterson pointed out that the consensus among the economists, businessmen, and others he consulted is that increasing long-run productivity growth by one-quarter of a percentage point usually requires increasing saving and investment by about 1.5 to 2 percent of Gross Domestic Product, and that raising productivity growth by a full percentage point would require devoting an extra 6 to 8 percent of GDP to capital formation.[8]

Recall from Chapter 4 that maintaining the Social Security taxpayer/beneficiary ratio at today's level of 3.4 would require adding enough immigrants to make the labor force 107,707,000 higher in 2030 than the level projected under intermediate assumptions, for a total labor force of 285,838,000. This is an increase of 86.2 percent over the 153,477,000 workers in 2001, for an increase of 2.87 percent a year. The intermediate assumptions projected the taxpaying work force to grow to 178,131,000 in 2030, up 16.1 percent, or 0.54 percent a year. In other words, the labor force would have to grow more than five times faster than projected. Which implies that if we took Peter Francese's advice and embraced this level of immigration, simply to keep labor as productive in 2030 as it was in 2001, the capital stock it works with in 2030 would have to be 86.2 percent bigger too, meaning physical capital—plant, equipment, machine tools, computers—would have to grow at about 2.87 percent a year.

Little and Triest's regressions of the labor productivity growth rate had coefficients for the growth rate of the population aged 25-65 ranging from -1 .177 to (for the 1950-1999 period) -1.520. Their results explain most of the productivity growth performance of recent decades.[9] Since virtually the entire labor force participates in Social Security, the population of covered workers (i.e., workers engaged in employment on which Social Security taxes are paid) may be taken as a rough but fairly good proxy for the labor force aged 25-65. Using the latter figure and the foregoing growth rate of 2.87 percent a year, we find that the immigration level Francese recommended would knock 4.36 percentage points off the productivity growth rate (2.87 x -1 .52). Peterson s rule that raising productivity growth by a percentage point requires putting 6 to 8 percent more of GDP into capital formation implies that restoring productivity growth to where it was before this inundation of immigrants entails investing an additional 26.2 to 34.8 percent of GDP! Obviously, these are very rough figures. Equally obviously, increasing investment this much would be all but impossible.

In 1992 economists John Goodman and Aldona Robbins of the National Center for Policy Analysis investigated the immigration solution to Social Security. Using figures from Social Security's 1992 Annual Report, they calculated that to get enough additional taxpayers and revenue to keep payroll tax rates at current levels, America would need to accept 57 million more immigrant workers over 78 years. This would mean that immigrants would be 29.3 percent of the labor force by 2070. Moreover

increasing the capital stock to match this addition of labor would require, under intermediate assumptions, increasing gross investment's share of GDP from the 1 8.96 percent average in the 1981-1991 period to 21.73 percent-an increase of almost 15 percent, or 2.77 percent of GDP.[10]

Moreover, Goodman and Robbins assumed that immigrant workers are lust as productive as American workers—a very optimistic assumption to say the least, given the large and rising share of immigrants who have little education and few skills. It necessarily follows that in reality, a much larger increase in investment than Goodman and Robbins estimated would be required simply to restore productivity to its original level.

Not only that, all the projections by Social Security's actuaries, including the pessimistic or "high cost" assumptions, assume labor productivity growth, meaning that the capital stock is assumed to grow faster than labor force growth, giving workers more and better capital to work with. (Economists call this "capital deepening.")

Where would the money to pay for all this investment come from? American savings performance has been bad and worsening since the 1950s. The fiscal profligacy of the l980s and 1990s drove our net national savings rate—net private savings minus federal budget deficits, i.e., the share of Gross Domestic Product actually available for investment-from an average of 9.8 percent of GOP in the 1960s and 8.0 percent in the 1970s to 5.4 percent in 1981-1990, and just 4.4 percent in 1991-1996. This means that much of our investment was financed from overseas borrowing. After 1997, the federal budget began running surpluses, reversing this trend; in 1998 net national savings were 6.1 percent of GDP. But budget surpluses, projected to rise steadily for years, first dwindled as we entered a recession, then disappeared. The fiscal 2001 surplus was roughly $121 billion, down from fiscal 2000's $236 billion. Fiscal 2002 saw a deficit of $159 billion, and the deficit for 2003 may well be larger. The fiscal requirements of fighting terrorism, possibly fighting Iraq, adding a prescription drug benefit to Medicare (as many politicians wish to do), and so on means that even before the Baby Boomers retire, we will likely return to chronic large budget deficits.

Net national savings, in other words, are collapsing again, which will force us back into overseas capital markets. To get an idea of how much we would need to borrow, increasing investment by some 2.77 percent of GDP in 1998 would have required an additional $243.2 billion. Who will lend us the hundreds of billions of dollars needed every year for the next 75 years, when the Europeans and Japanese will be struggling to finance the exploding costs of their own aging populations? Obviously, financing all the needed additional investment from overseas borrowing is a forlorn hope.

(Of course, if financing from overseas is out, we could embrace budgetary austerity and run surpluses to drive our net national savings back up-but if we did that, then using immigration to improve government finances would be superfluous.)

This investment, incidentally, does not take into account the huge additional outlays for housing, roads, schools, power grids, water supply, etc. required to accommodate the population growth necessarily resulting from this vast increase in immigration.

Summary

If we double or quadruple annual net immigration, this will have a strong negative effect on labor productivity and, therefore, on wages and on Social Security's revenues. The only way to offset this is by making equally massive investment in capital stock. Unfortunately, circumstances are such that we will almost certainly be unable to do this. Which means that attempting to shore up Social Security through higher immigration will end up making Social Security's situation worse.

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[1] A good discussion is in Robertson, *Social Security: What Every Taxpayer Should Know*, p. 143.

[2] James P. Smith and Barry Edmonston, eds., *The New Americans: Economic, Demographic, and Fiscal Effects of Immigration* (Washington: National Academy Press, 1997), pp. 150-151.

[3] Jane Sneddon Little and Robert K. Triest, "The Impact of Demographic Change on U.S. Labor Markets," in Jane Sneddon Little and Robert K. Trest, eds., *Seismic Shifts: The Economic Impact of Demographic Change*, Federal Reserve Bank of Boston, Conference Series No. 46, June 2001, pp. 146-149.

[4] Ibid, pp. 134, 149-160.

[5] Robert J. Gordon, "Does the 'New Economy' Measure Up to the Great Inventions of the Past?" National Bureau of Economic Research, NBER Working Paper # 7833, August 2000, pp. 12, 28-29, 31-33.

[6] Myriam Quispe-Agnoli and Madeline Zavodny, "The Effect of Immigration on Output Mix, Capital, and Productivity," *Federal Reserve Bank of Atlanta Economic Review*, First Quarter 2002, pp. 1-2, 7-9.

[7] Ibid., p. 10.

[8] Peter C. Peterson, *Facing Up: How to Rescue the Economy from Crushing Debt and Restore the American Dream* (New York: Simon & Schuster, 1993), pp. 233-234.

[9] Little and Triest, "The Impact of Demographic Change on U.S. Labor Markets," pp. 146-148.

[10] John C. Goodman and Aldona Robbins, "The Immigration Solution," National Center for Policy Analysis, NCPA Policy Report no. 172, August 1992, pp. 34-35, 38, 40.

[11] *Economic Report 0f the President*, February 2000, Department of Commerce, Bureau of Economic Analysis data, p. 334, Table B-24.-Relation of gross domestic product, gross national product, net national product, and national income, 1959-99, and p. 342, Table B-32.-Gross saving and investment, 1959-99. Net private savings defined as gross private saving less private consumption of fixed capital. Net national savings defined as net private savings

less federal surplus or deficit (in National Income and Product Account terms). Percent calculations mine. Declining surpluses, return of deficits: "In Rapid Shift, a Budget Surplus Is Expected to Turn Into a Deficit," *New York Times*, October 1, 2001; "Red Flag: "47th Deficits Back in Picture, Bush Agenda Faces Big Test," *Wall Street Journal*, November 11, 2002

CHAPTER SEVEN:
MASS MMIGRATION AND WAGE STAGNATION

Another way to grasp the negative impact which massive increases in immigration will have on Social Security's finances is to think simply in terms of the supply of labor.

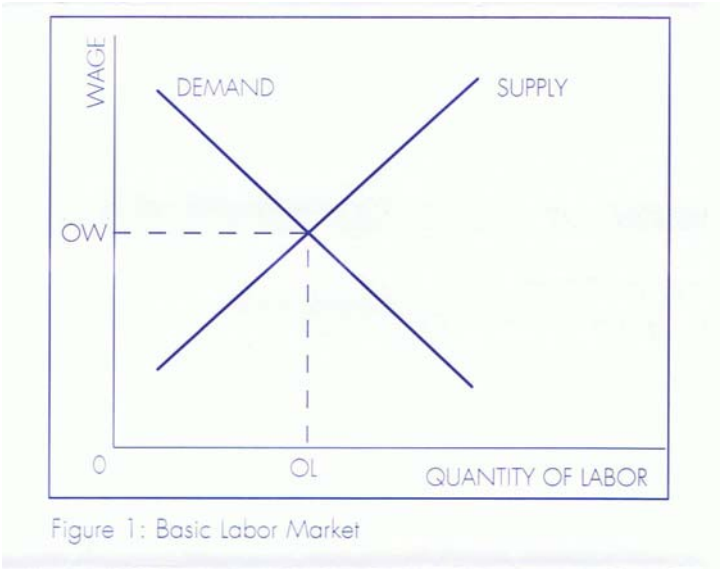

Figure 1: Basic Labor Market

The law of demand states that the higher the price, the less is demanded, and the lower the price, the more is demanded. The law of supply states that the higher the price, the more is supplied. Supply and demand are represented by a downward-sloping demand curve and an upward-sloping supply curve. Where they intersect, quantity demanded equals quantity supplied, so the market is in equilibrium. In our graph of the labor market, Figure 1, the equilibrium quantity of labor is OL and the equilibrium wage is OW.

A given set of supply and demand curves takes the surrounding circumstances consumer tastes, production methods, population, etc. as given. When these change, the curves shift. Thus an influx of immigrants shifts the labor supply curve to the right: at each wage, more labor is supplied, as shown by the new supply curve S2 in Figure 2. Now, with more labor being supplied, and the demand curve unchanged, the labor market will reach a new equilibrium with the quantity of labor employed at 0L2 and the wage driven down to 0W2.

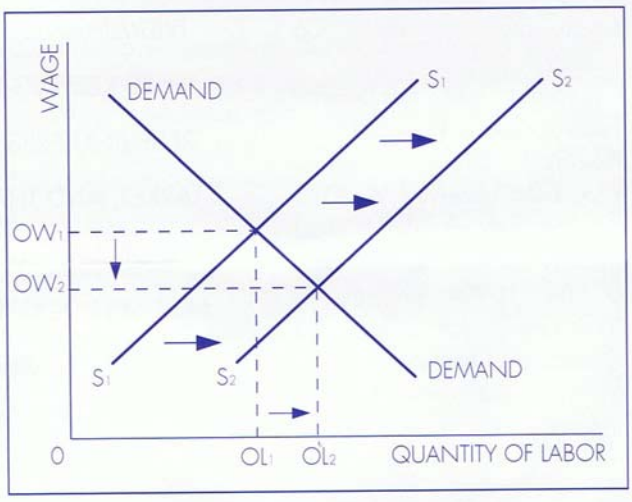

Figure 2: Labor Market With Mass Immigration

So if we greatly increase our labor force through immigration, then unless there is some major offsetting change, wages must stagnate or even fall. And since Social Security's revenue comes from taxes on labor income, it stands to reason that Social Security's tax base must stagnate too, perhaps even shrink, and that so will Social Security's revenues.

Immigration and Wage Stagnation

Critics of immigration have long argued that immigration is depressing American wages, or at least causing the growth of wages to be slower than it would be otherwise.[1]

Some recent evidence indicates that immigration is indeed having this effect. The National Research Council's 1997 study pointed out that immigration helped increasethe supply of high school dropouts by 15 percent compared to the supply of workers with a high school education or better, and that this might account for some 44 percent of the decline during the 1980-1994 period in the relative wage of high school dropouts.[2]

In the economic boom of the late 1990s unemployment fell to 4.1 percent, a 29-year low. In November 1999, and the available labor pool (unemployed plus discouraged workers) dropped from 16.5 million in 1994 to 10.8 million in May 1999 and 9.5 million in October 1999. Under such circumstances one would expect wages to be bid up by employers competing for scarce workers. Yet overall wage growth in mid-1999 was at a 3.4 percent annual rate, versus 4.4 percent a year earlier. From November 1998 to November 1999, wages grew only about 3.6 percent.[3]

What had happened? Federal Reserve Bank of Dallas research director Harvey Rosenblum observed in 2000 that the rate of inflation had actually declined as the boom of the 1990s progressed. Whereas for decades mainstream economists had believed that inflation and unemployment existed in an inverse relationship described by the "Phillips curve," the 1990s experience indicated that the Phillips inflation-unemployment tradeoff no longer operated. Among the reasons for this, Rosenblum wrote, was immigration. In

the past two decades, one-fourth to one-third, perhaps more, of labor-force growth was caused by immigration. "This extra-seemingly endless-supply of labor has likely reduced worker demands for wage increases for any given level of employment, thereby muting the impact of the Phillips curve relationship." Being above wages in the countries sending immigrants, American wages, Rosenblum wrote, would attract immigrants "like a magnet. . . . An economic expansion without accelerating inflation requires, among other things, an abundant labor force."[4]

In 2000 Tsuyoshi Yamada, an economist at Japan's Tokyo-based NLI Research Institute, argued that immigration was contributing to American prosperity in the 1990s by restraining inflation, achieved mostly by its effect on the labor supply. Yamada observed that foreign nationals living in America accounted for 7.9 percent of total population in 1990 but would make up an estimated 10.8 percent in 2000, with Hispanic immigrants accounting for some 75 percent of the increase. With the Hispanic labor force growing at 3.6 percent a year, it accounted for about a third of the overall rate of growth of the total labor force.

Not only are Hispanics the lion's share of immigrants, but over 60 percent of them work in low-skill, labor-intensive lobs like fast food and domestic services. "Since Hispanics on average earn approximately 65 percent of the wage of Whites, the inflow of low-wage labor helps to suppress wage growth in low productivity areas ... therebyhelping to reduce inflation."[5]

Yamada maintained, quite plausibly, that the increase in low-wage Hispanics share of the labor force from 8.3 percent in 1990 to 10.3 percent in 1999 "tends to reduce the overall wage level." He went on to estimate what wage growth rates would have been had the labor force not been augmented by immigration, and compared them to the wage growth rates that actually obtained in the 1990s. Yamada estimated that during the 1990s immigration reduced wage growth by an average of 1.7 percentage points a year, with 1.62 percentage points due to the increase in the labor force through immigration, and 0.08 points due to the rising share of low-wage Hispanics. Immigration's suppression of wage growth strengthened in the late 1990s, Yamada observed. Without immigration, he estimated, the 3.4 percent growth in wages in 1999 would have been 5.4 percent instead.[6] Put another way, since 3.4 is 63 percent of 5.4, immigration knocked 37 percent off of wage growth in 1999.

Immigrationists Admit It:
Immigration Causes Wage Stagnation

What is even more telling is that some immigrationists themselves have admitted, albeit indirectly and implicitly, that immigration is making American wages and labor incomes stagnate. In the late 1990s, a flurry of articles by immigrationists lauded immigration for contributing to prosperity by keeping inflation low.

Immigrationists Stephan Richter and Daniel Bachman of the Transatlantic Futures Research Institute maintained in a *Wall Street Journal* article that Federal Reserve chairman Alan Greenspan need not worry about a tight labor market touching off wage inflation, because "so long as the U.S. maintains or increases its current immigration levels, there never will be [a labor shortage]." About 5.1 million of the 12.7 million jobs created in 1990-1998 were filled by immigrants, they observed, and if it had not been for

the immigrants, "the Fed would long ago have had no choice but to tighten monetary policy in order to stem wage inflation." Immigrants, indeed, "constitute the front line in the war against wage inflation."[7]

Linda Chavez, one of America's most prominent immigration advocates, saw immigrants as responsible for the booming economy: "Mass legal immigration has been a critical component of economic growth for the last two decades."

Moreover, "our continued prosperity depends" on admitting more immigrants. Chavez argued that "if it weren't for the large influx of foreign-born workers . . . in the last several years, nearly everything we pay for would cost more."[8] And how does the "large influx" of immigrants keep costs down? Obviously, by keeping wages down.

Likewise, Richter, also president of an on-line think tank called TheGlobalist.com, argued in Foreign Affairs that immigration is holding down inflationary pressure from labor costs because "the large, steady influx of foreign labor into the United States . . . keeps adding enough new workers to the economy to ease pressure on wages." In the 1980s, Richter pointed out, American labor costs grew some 3.5 percent a year, but in the latter half of the l990s,labor cost growth averaged just 1.5 percent. The large influx of immigrants since 1990 filled some five million new lobs and created an immigrant labor pool raising the U.S. unemployment rate. Without immigrants, Richter argued, unemployment would be much lower. During the 1990s the gap between the unemployment rate with immigration and the unemployment rate that would have obtained with no immigration steadily widened, Richter reported, until as of December 1998, the unemployment rate with immigration was 4.3 percent, whereas without immigration, it would have been 0.5 percent. What would happen with the lower unemployment rate? "Wages would rise rapidly, too much money would be chasing too few workers and goods, and inflation would pick up," Richter warned, meaning the Federal Reserve would have to tighten money and credit and brake economic growth. "All this could happen if the United States shuts its doors to immigrants." Writing in Barron's, William Pesek Jr. argued along the same lines.[9]

Fastening upon the article by the Federal Reserve Bank of Dallas's Rosenblum, the American Immigration Law Foundation crowed triumphantly that immigrants were keeping inflation low by relieving pressure in the labor market, and that this "is the chief reason why inflation rates have not skyrocketed as forecast by the Phillips curve. In this setting, low unemployment does not drive up wages in excess of productivity-it keeps them stable." You can't get a more explicit admission that immigration causes wage stagnation than that.

Gene Koretz of *Business Week* observed similarly that the influx of foreign workers, "especially illegal immigrants attracted by America s economic boom," are acting as a "critical safety valve" for inflationary pressures by "helping to lessen wage pressures even as the jobless rate hits new lows."

All of this, of course, is an admission that immigration has been holding down wage growth-precisely what immigration opponents have been maintaining. Apparently without realizing it, Chavez, Richter, and the other immigrationists making this argument are admitting that immigration opponents are right.

Implications for Social Security

But if net immigration running at about 900,000 a year is already reducing wage growth by up to 37 percent a year, then it must necessarily follow that if we permanently increased net immigration levels to two, four, or more times this level, wage growth will slow even more or stop altogether. Perhaps such huge increases in labor supply will even drive wages down.

Now if wage growth slows down, so does Social Security's revenue growth. Even if real wages merely grow more slowly than Social Security's actuaries expect, it will worsen Social Security's finances. The intermediate actuarial analysis of Social Security's 2002 Annual Report assumes long-run annual average wage growth of 4.1 percent and a long-run average annual Consumer Price Index increase of 3.0 percent.

The "real wage differential," the difference between them, which is thus the assumed growth in real wages, is 1 . 1 percent. The actuaries' sensitivity test for real wages revealed that with the "high cost assumption of a real-wage differential of 0.6, the long-term actuarial balance would be -2.37 percent of taxable payroll, versus -1.87 percent under intermediate assumptions. In other words, if real wages rise only half as fast as the intermediate assumption, the long-term actuarial deficit worsens by 27 percent.[12] Immigrationists such as Wattenberg make the mistake of treating the immigration sensitivity test as a full account of immigration's impact on Social Security, without working through the effects of a huge increase in immigration on wages, which in turn affect Social Security's tax base. Two can play the sensitivity test game. Since slower growth of real wages is an *outcome* of the interaction of supply and demand in the labor market, whereas a higher immigration level (a rightward shift in the labor supply curve) is the *first step* in that process, the real wage sensitivity test should be looked at too to get at least a very rough idea of the full effects of immigration.

Recall that the rankings of the sensitivity tests by the Magnitude of the swing in the actuarial deficit consistently revealed that changing the real-wage assumption has a far more powerful effect on the outcome than does changing the immigration assumption. The immigration sensitivity test reveals that every additional 100,000 net immigrants relative to the 900,000 net immigration in the intermediate analysis, an increase of 11 percent, cuts the actuarial deficit by 0.07 percent of payroll, or 3.7 percent. This implies that a 10 percent increase in assumed annual net immigration cuts the actuarial deficit by 3.4 percent (10/11 =0.91,0.91 of 3.7 is 3.4). The real-wage sensitivity test shows that if real-wage growth is assumed at 0.6 percent a year rather than 1.1 percent, a decline of 45 percent, the actuarial deficit rises by 27 percent. This implies that a decrease by 10 percent in the rate of real-wage growth raises the actuarial deficit 6 percent (27/4.5 = 6). In other words, the actuarial deficit is about 76 percent more responsive to a 10 percent drop in real-wage growth than it is to a 10 percent increase in annual net immigration (6 is about 176 percent of 3.4).

The clear implication of this is that if a 10 percent increase in annual net immigration caused a 10 percent decline in real-wage growth, Social Security would actually be worse off for it. And if a 10 percent increase in annual net immigration resulted in a five percent slowdown in real-wage growth (which would raise the actuarial deficit by 2.9 percent), Social Security's finances would be only just barely improved.

Considering the two tests together, of course, is only a very rough sense of the economic impact of higher immigration. It neglects the interactions between all thevariables in Social Security's actuarial calculations. Crude as it is, though, it is a far more realistic, and therefore better, approach than the simplistic focus on the immigration sensitivity test in isolation. It confirms what thinking things through would lead us to expect: if we add a lot of workers, without a corresponding large increase in the capital stock, all we get are a larger number of workers, whose wages will therefore grow more slowly than the actuaries project. More workers than projected receiving wages growing slower than projected have offsetting effects on the projected growth of Social Security's tax base, making the effect on Social Security's financial outlook ambiguous.

Of course, the crux of the matter is the change in real-wage growth. This would depend not only on how much the real wage responds to the huge increment to the labor force but on surrounding factors, Increased immigration in a context of exploding investment might well be followed by higher productivity and real wages, yielding a better outcome for Social Security. But this, as we saw, is unlikely. And without such mitigating forces, real wages would probably actually stop growing or even fall, perhaps making the impact on Social Security's finances even negative.

Summary

A large increase in the labor force due to massively greater immigration will cause wages to stagnate or even decline. Immigration advocates have essentially conceded the point by lauding immigration for relieving wage pressure on inflation. However, stagnating or falling wages will translate into stagnating revenue for Social Security, unless offset by equally massive but unlikely increases in investment.

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[1] See, e.g., Federation for American Immigration Reform, Issue Brief Immigration Lowers Wages for American Workers."

[2] Smitb and Edmonston, eds., *The New Americans*, p. 236.

[3] Immigration Tide Helps Keep U.S. Inflation in Check," *Chicago Tribune*, June 29, 1999; "U.S. Labor Market Pressures Eased in November,' *Wall Street Journal*, December 6, 1999.

[4] Harvey Rosenblum, "The 1990s Inflation Puzzle," *Federal Reserve Bank of Dallas*, *Southwest Economy*, Issue 3 May/June 2000), pp. 9,11.

[5] Tsuyoshi Yamada, "How Immigration Contributes to Economic Growth in the United States," NLI Research, no. 142 (2000), pp. 23-25.

[6] Ibid., pp. 25-26.

[7] Stephan Goetz Richter and Daniel Bachman, "How to Keep Growth Alive: Welcome More Immigrants," *Wall Street Journal*, July 22, 1999.

[8] Linda Chavez, Continuing prosperity depends on immigrants, *Detroit News*, April 10, 2000.

[9] Stephan Richter, "The Immigration Safety Valve: Keeping a Lid on Inflation," *Foreign Affairs*, vol. 79, no. 2 (March-April 2000), pp. 13-15; William Pesek Jr., "With a Dwindling Labor Supply in the U.S., Arguments Abound for Easing Immigration Rules," *Barron's*, August 30, 1999, p. 42.

[10] "Immigrants Keeping Inflation Low: Challenging the Phillips Curve," Immigration Policy Reports, pp. 1-2, at www.alif.org.

[11] Gene Koretz, "America s Secret Labor Force: Illegal Immigration to the rescue," *Business Week*, April 17, 2000, at www.businessweek.com

[12] *2002 OASDI Annual Report*, pp. 150-151.

CHAPTER EIGHT:
IMMIGRANTS AND SOCIAL SECURITY:
OTHER PROBLEMS AND STUDIES

The last two chapters have shown that the Immigrationists' arguments drawing on the sensitivity test are too simplistic to be taken seriously. Massive increases in the level of immigration will have negative effects on labor productivity and on wages, and these in turn would be likely to make Social Security's tax revenues stagnate.

Quite apart from all this, various characteristics of most immigrants make them unpromising sources of Social Security revenue.

Poor Immigrants, Poor Taxpayers

Because Social Security taxes labor income, it is intuitively obvious that unskilled, low-paying jobs are poor sources of Social Security revenue. Empirical evidence supports this bleak assessment. In 1995 David Pattison, an economic researcher at the Social Security Administration, analyzed Social Security tax revenues and benefits, using Census survey data for 1992. Splitting the population into ten equally-large groups, or deciles, according to their incomes, and examining "pre-OASDI income" (income without benefits), Pattison found that persons with low incomes paid very little Social Security taxes, both absolutely and as share of total revenue (Table 1).[1]

From this we see that in 1992 persons with incomes at or below $7,322 paid only 3.1 percent of total revenues, and those with incomes at or below $10,976 paid only 7.4 percent. People working full time at or below the federal minimum wage—which was $4.25 in 1992 and is $5.15 now[2]—clearly fall into this group. Incomes up to $14,958 accounted for only 14.2 percent of total Social Security revenues.

TABLE 1:

Breakdown of 1992 Social Security Tax Revenues by Income Decile, Billions of Dollars

Income decile	Decile income range	Total tax revenue	Share of total tax revenue
Total		$311.1	100.00 %
Bottom	$0-1,223	0.3	0.1
2nd	1,224-4,166	2.6	0.8
3rd	4,167-7,322	6.8	2.2
4th	7,323-10,976	13.4	4.3
5th	10,977-14,958	21.2	6.8
6th	14,959-19,117	29.6	9.5
7th	19,118-23,821	39.3	12.6
8th	23,822-29,688	49.8	16.0
9th	29,689-39,638	62.8	20.2
Top	39,639 or more	85.3	27.4

Source: *Social Security Bulletin*

Since most immigrants are coming in at the bottom of the economic pyramid, it must follow from this that the kinds of jobs they take just simply aren't the ones which generate much Social Security revenue,

Indeed, Table 2, of 1999 total money incomes of foreign-born persons by year of entry, shows that 47.3 percent of all immigrants had money incomes below $l5,000—i.e., were in the income range which in 1992 contributed only 14.2 percent of Social Security's total tax revenue! And 59.1 percent had incomes below $20,000, whereas incomes below $19,118 paid 23.7 percent of 1992 Social Security taxes. (And since plenty of Americans were in these income ranges too, the contribution to Social Security revenues by immigrants with incomes below $19,118 was, necessarily, considerably less than 23.7 percent!) We also see that the immigrants who entered after 1980—who constitute the bulk of today's immigrant population—were concentrated in the lower income ranges.[3]

So the income range which the majority of immigrants inhabits is also where contributions to Social Security revenue are the poorest. It inescapably follows from this that immigrants just simply are *not* making substantial contributions to Social Security's finances.

TABLE 2:

Money Incomes of Foreign-Born Persons and Share of Foreign-Born Population in each Income Interval, by Year of Entry: March 1999

		Year of Entry			
Income Range	Total	Pre- 1970	1970-79	1980-89	1990 +
$1 to $2,499 or less	8.8 %	6.9 %	6.8 %	9.1 %	11.2 %
$2,500 to 4,999	5.7	5.2	4.4	5.4	7.2
$5,000 to 9,999	16.6	20.3	13.5	15.7	16.9
$10,000 to 14,999	16.2	14.9	13.8	16.6	18.3
$15,000 to 19,999	11.8	9.6	11.7	12.1	13.0
$20,000 to 24,999	9.1	7.3	9.1	10.4	9.1
$25,000 to 34,999	11.4	10.3	14.6	11.9	9.2
$35,000 to 49,999	8.9	10.1	11.0	8.6	6.9
$50,000 to 74,999	6.7	8.2	9.2	5.9	4.8
$75,000 and over	4.9	7.2	5.9	4.2	3.4

Source: U. S. Bureau of the Census

Moreover, Table 2 indicates that there has been a clear trend over the past few decades of greater poverty in the newly-arrived immigrant population. The newer the immigrant cohort, the poorer it is. Empirical studies have confirmed this trend. A 1996

article by Urban Institute senior research associate Harriet Orcutt Duleep and National Science Foundation senior economist Mark C. Regets, using 1990 Census data, found that the median earnings in 1989 of male immigrants who entered the U.S. in 1985-1990 were, overall, $12,367, or 40.6 percent of the median earnings of American natives, with Latin

American men having median earnings of $11,062 (36.4 percent of the American median), Asians $13,462 (44.3 percent) and western Europeans $30,726 (101 percent). Moreover, regardless of educational levels, the median entry earnings of immigrants have fallen off both absolutely and relative to the median earnings of the American-born: in 1969, immigrant men who arrived in 1965-1970 earned $23,045 (in 1995 dollars), 65.3 percent of the native mens' median; in 1979, the 1975-1980 immigration cohort earned $16,267, 50 percent of the native mens' median; and in 1989, the 1985-1990 cohort earned $12,367, just 40.6 percent. Also, the 1989 median earnings of immigrant men aged 25-54 who entered between 1985 and 1990 were substantially lower than those of native men, for all age ranges and education levels, the only exception being immigrants from western Europe. The fall in entry earnings, Duleep and Regets noted, "suggests that the per capita earnings contribution of recent immigrants to Social Security is less than that of earlier immigrant cohorts."[4]

Similarly, economist George Borjas reported that recent immigrants' earnings have been increasingly poor relative to natives. Whereas in 1960 a newly-arrived male immigrant earned only 13 percent less than natives at the time of his entry, by 1980 the gap had increased to 28 percent, and to 34 percent by 1998. Whereas only about 7 percent of immigrants were in the lowest decile of the native wage distribution, by 1998 this share had shot up to some 23 percent.[5]

To be fair, Duleep and Regets also found that immigrants experienced substantial earnings growth after their arrival in America, and with it "considerable 'catching up' with the median earnings of similar natives." Something like two-thirds of the earnings gap was closed during the ten years following entry. Whereas the 1965-1970 immigrant cohort aged 25-54 earned 65.3 percent of native earnings in 1969, in 1979 the figure was 85.4 percent; similarly, immigrants in the 1975-1980 cohort earned 50 percent of native earnings in 1979, but 83.9 percent in 1989. More recent immigrants, then, had much faster earnings growth than did earlier immigrants.[6] The implication of this is, of course, positive for Social Security. However, this says nothing about the progress of the more-recently arrived, and poorer, immigrants.

Indeed, Borjas's findings on this matter were less encouraging. While young immigrants who arrived before 1970 substantially closed the relative wage gap by 1999, those who arrived in 1975-1979 had earnings 22 percent below native earnings upon arrival, and 12 percent less by 1999-and immigrants who arrived in 1985-1989 began with earnings 23 percent below those of the natives, and saw the gap actually widen to about 29 percent by 1999! While past cohorts' experience indicates they will eventually narrow the gap, Borjas inferred that "these immigrants will earn much less than natives throughout their working lives." The widening gap in educational attainment between more recent immigrants and natives observed by Little and Triest, discussed in Chapter 6, lends credibility to Borjas's conclusions.

Another point to consider is that the top decile of the population in 1992 had incomes above $39,639 or more and paid 27.4 percent of total Social Security taxes. In

that year the maximum taxable income was $55,500, which means that taxable incomes between $39,639 and $55,500 were paying 27.4 percent of the revenue. The maximum taxable income was $84,900 in 2002-an increase of $29,400-and is rising some $4,000 a year.[8] As the Social Security tax is applied to a rising share of the higher incomes, it stands to reason that the higher incomes will be paying a larger and larger share of the total Social Security revenue. Which means that share of the total revenue paid by the bottom incomes, where the immigrants are concentrated, and where they tend to remain, will be declining.

It must follow from all of the foregoing that the influx of mostly low-skilled, poorly-educated immigrants hasn't helped Social Security's cash flow so far, that greatly increasing that immigration isn't going to do much to improve it either and that it is a denial of reality, common sense, and elementary economic logic to pretend otherwise. When we add to this the overwhelmingly likely depressive effect which this mass immigration will have on wages and productivity, this conclusion is even stronger.

All too clearly, using massive numbers of low-wage, low-skill, ill-educated immigrants to bolster Social Security's revenues is the crudest and most primitive method imaginable for strengthening the program. If it manages to make any positive contribution at all, it will do so only through sheer force of numbers. Indeed, it cannot rely on anything else, because such immigrants have nothing else to offer. This is the fiscal equivalent of building a pyramid in ancient Egypt with scores of slaves dragging each granite block, of building an earthen dam in India in days of yore by using swarms of peasants each carrying a basket of dirt, or of the "human sea" assaults made during the Korean War by massed Chinese soldiers, some of whom did not even have rifles. That intelligent people in the most advanced country in the world are seriously advocating something so grotesquely backwards to rescue our greatest social program from calamity, using Third World methods to solve a First World problem, is disturbing.

What About High-Skill Immigrants?

But what of those highly-skilled, well-educated immigrants, such as those who take information technology jobs? Since they make good money, won't they make good Social Security taxpayers? Not necessarily. Many highly-skilled foreign "guest workers" who come here on H-1B visas pay no Social Security taxes whatsoever. Consulting and contracting firms in foreign countries, especially in India, recruit foreign "temporary" workers, bring them to America under H-1B, and supply them under contracts to American firms which do not want to hire permanent workers. As employees of the consulting firms, the foreign workers are paid by cash or by check with no withholding for U.S. taxes, including Social Security. Others receive paychecks banked in India, again with no payment of U.S. taxes.[9]

Furthermore, the contribution to Social Security's revenues by high-skill immigrants is complicated to the extent that immigrants displace well-paid native American computer programmers, software engineers, and so on. If the displaced Americans take lower-paying jobs, the Americans' payments of Social Security taxes decline accordingly. Also, if the immigrant information technology workers are cheaper than the Americans they displaced, they will pay lower Social Security taxes than the Americans would have if they'd kept their jobs. These factors will weaken any gain to

Social Security revenues from the presence of the immigrant. Thus, if an American IT worker is earning, say, $60,000 and is displaced by an immigrant who gets $50,000, and himself takes a job paying $40,000, then the net gain in taxable income is not the immigrant's $50,000 salary, but only $30,000 ($50,000 + $40,000 - $60000).The net gain in Social Security revenue is not $6,200 ($50,000 x .124), but $3,720 ($30,000 x .124).[10]

Computer studies professor Norman Matloff of the University of California (Davis), a keen student of the role of immigration in the computer industry, has pointed out that the attraction of skill-based immigration for the industry "has little to do with talent, and has a lot to do with employers' desire to hire cheap, compliant labor." His statistical analysis of 1990 Census data disclosed that average salaries for foreign-born computer workers in California's Silicon Valley were almost $7,000 less than those of Americans with the same age and education.[11] This means that if the firm hires the immigrant rather than the American, Social Security is collecting $868 less in revenue ($7,000 x .124 = $868) each year. If this gap persists over a 40-year career, then assuming the tax rate remains unchanged, the decision to hire the cheaper immigrant rather than the American means Social Security will collect $34,720 less in revenues ($868 x 40 = $34720) over 40 years.

In some cases, of course, the disparity between the immigrant's and the American's income is even greater, making the forfeiture of potential Social Security revenues much worse. A 1998 *Wall Street Journal* article narrated the activities of John Nyhan, a recruiter for Information Management Resources, Inc., who scoured the world seeking foreign computer programmers. In Brazil, Nyhan hired programmer Marcia Pinheiro, offering a starting salary of $64,000. "Even with salaries starting at $55,000, recruiting foreign talent is cheaper than hiring Americans," the article observed. "A U.S. citizen with Mr. Pinheiro's skills, for example, would command a salary of $75,000 to $80,000 at some companies, Mr. Nyhan reckons."[12] A foreign programmer hired to work in America at $55,000 makes $25,000 less than an American who would have to be paid $80,000 and pays $3,100 less in Social Security taxes every year. Over 40 years, that means $124,000 Less in revenue.

Also, the problems discussed in Chapters 6 and 7, of a large influx of immigrants probably depressing productivity and wages, can operate in these occupations just as in others.

All of this suggests that while high-income immigrants will Make some contribution to Social Security revenues, and while of course every little bit helps, if is unlikely to be decisive. Skill-based immigration as a revenue source isn't everything it's cracked up to be.

The National Research Council Study

Immigration advocates routinely cite the famous 1997 National Research Council study *The New Americans: Economic, Demographic, and Fiscal Effects of Immigration*, which, so they say, found that "immigrants pay $80,000 more in taxes than they receive in total benefits over their lifetimes," or "[t]he typical immigrant and his or her descendants pay an estimated $80,000 more in taxes than they will receive in local, state, and federal benefits over their lifetimes," or similar words. More specifically, the NRC found that immigrants made a net contribution of $105,000 to the federal

government's revenues and created a net deficit of $25,000 at the state and local level, for an overall gain of $80,000.[13] Since immigrants are much younger than natives, an obvious implication is that immigrants are a big help for Social Security.

The NRC study's findings are contained in its seventh chapter. Let's examine them closely. Unfortunately for the immigrationists, these findings do not mean what they say they mean.

Chapter 7 of *The New Americans*, written by demographer and economist Ronald Lee and demographer Timothy Miller, both of the University of California (Berkeley), first examined the impact of immigration on government finances in a current year, and then projected future impacts. Lee and Miller found that in 1994, first-generation immigrants contributed $510 more (1996 dollars) to Social Security and Medicare than they received in benefits, for a net contribution of $11.5 billion (1996 dollars) a year.[14] By now it should be obvious that this was a very modest share of the total—and since this includes Medicare, the immigrants' net contribution to Social Security itself was necessarily even smaller.

In projecting the future fiscal impacts of immigration, Lee and Miller naturally had to make some assumptions about the future. They noted, correctly, that if current federal tax and spending policies continued unchanged, the federal budget deficit would explode, and so would the ratio of national debt to Gross Domestic Product (GDP). Reasonably enough, they maintained that this is unsustainable and that sooner or later the federal government would have to get its finances in order. Therefore, they assumed that starting in 2016, through a 50-50 combination of tax increases and benefit cuts, the ratio of gross federal debt to GDP would be frozen at its 2016 level. "The implied adjustments," Lee and Miller noted, "shape our results in an important way." Using this and other assumptions, they calculated the net present value (NPV) which adding a typical immigrant would have on government finances: the present value of taxes paid by the marginal immigrant and his descendants, minus the present value of all their costs to the federal, state, and local governments.[15]

Lee and Miller found that the average fiscal impact of an immigrant, overall, was $80,000 1996 dollars. Quite properly, they added that these numbers rest on a set of assumptions which are open to question, "so they should not be taken at face value."[16] As we have seen, that is precisely what immigration enthusiasts did.

Moreover, this $80,000 NPV broke down to -$3,000 for the immigrants themselves and +$83,000 for their descendants.[17] The much-touted positive results of immigration in the NRC study thus flow not from immigrants themselves, but from their children. And the children's strong positive contribution comes about not because of anything special that immigrants' children do for America, but because of what America does for them: give them the benefit of superior American health care, sanitation, housing, diet, education, efficient public services, etc., etc—most of which were created and paid for by persons who were themselves not immigrants. *Immigrants' children do not confer windfall benefits on America. America confers windfall benefits on immigrants' children, which is* why they make a substantial positive contribution to total government finances, whereas their parents do not.

Lee and Miller also Investigated what difference the Assumption of stabilization of the debt/GDR ratio after 2016 made to the results. With this budget adjustment, the

average NPV of an immigrant was -$25,000 at the state/local level and +$105,000 at the federal level, for an overall NPV of $80,000. However, without the budget adjustment, the federal-level NPV collapsed to +$10,000, a decline of $95,000, making the total fiscal impact -$15,000.[18] The federal-level NPV of an immigrant in the absence of budget adjustment is just 9.5 percent of the federal-level NPV with the budget adjustment; put another way, if the debt/GDP ratio is not stabilized in 2016, 90.5 percent of the immigrant's positive contribution at the federal level is lost. In other words, the overwhelming bulk of the positive NPV of immigrants depends not on anything they do, but on policymakers' restoration of fiscal discipline in 2016 and resolute maintenance of it afterward, which means the immigrants themselves add very little. Lee and Miller acknowledged this explicitly: "If the long-term federal budget imbalance is not addressed . . . the overall fiscal impact of immigrants will be slightly negative."[19] But if immigration depends so heavily on something outside itself to make a positive contribution, this necessarily means that immigration, *in and of itself*, is of *very* little use for shoring up Social Security.

And just how would the long-term federal budget imbalance be addressed? The biggest factor driving the federal government toward fiscal crisis is explosive spending growth for old-age entitlements—Social Security, Medicare, and Medicaid-so addressing the budget imbalance obviously means, above all, raising taxes and cutting benefits for these entitlements. This implies that in order for immigrants to make a substantial contribution to Social Security's finances, the federal government must, among other things, raise Social Security taxes and cut Social Security benefits. But if we are biting the Social Security bullet on our own, then what do we need immigrants for?

It should be noted too that the $80,000 overall net positive contribution is accrued not over the lifetime of an immigrant or that of his descendants, as the immigrationists misleadingly put it, but over a 300-year time horizon. Over a 75-year horizon, i.e., the period for Social Security's long-range actuarial analysis, 68 percent of the federal-level NPV is attained, or $71,400, and 53 percent of the total NPV, or $42,400—quite considerably less than the much-touted $80,000.

And even in this shorter period, the decisive factor is the budget adjustment in 2016.[20] Supposing we increase immigration, as Wattenberg and others recommended? Lee and Miller calculated the effect of adding an additional immigrant every year permanently (the fiscal impacts of this could then be multiplied to see what difference permanently increasing annual net immigration by 100,000 would make). The additional immigrant's initial fiscal impact at the federal level is very modest, and at first negative overall. But again, the budget adjustment makes the difference: "At the federal level, and in total, the effect of the assumed budget adjustment in 2016 is very apparent. After 2016, the total (current) fiscal impact turns positive, and very strongly so.[21]

It turns out, then, that the NRC study does not support the idea that immigration will be decisive for strengthening Social Security. Rather, when we go beyond the immigrationists' skin-deep presentation of its results, it indicates that immigration is a weak reed on which to lean.

Economists' Verdicts: Only Modest Gains

Some other academic economists have also given the question of immigration's contribution to federal finances rigorous study. Their work suggests either that immigration wont do Social Security much good or that it must be applied in massive amounts to work.

Berkeley economists Alan J. Auerbach and Philip Oreopoulos examined the fiscal impact of immigrants over time using generational accounting. This method of analysis is based on the "intertemporal budget constraint" concept, whereby the present value of future tax payments made by current and future generations must cover the present value of future outlays plus service on the initial stock of government debt. Auerbach and Oreopoulos examined the impact of a total termination of immigration in two situations: one in which future generations bore all the burden of the governments financial imbalance, and the other in which the government immediately raised taxes and cut benefits for all generations, until the financial imbalance is eliminated. They found that an immigration cutoff increased the tax increase/benefit cut burdens on future generations if they bore all the burden of restoring fiscal balance, but reduced those burdens in the case where the burden of restoring fiscal balance was spread over both present and future generations. The difference arose because new immigrants are a larger share of future generations than they are of the present generation. So in the first situation, without immigrants to share the burden of tax increases and benefit cuts, the entire burden of sacrifice would fall on future generations of natives, to whom the absence of immigrants would make a big difference; but when the present generation was also sharing in the sacrifice, the future generations made a smaller share of the sacrifices, and the average contribution of immigrants would be smaller. In both cases, however, the changes in the burdens borne were very small relative to the levels of the burdens. Auerbach and Oreopoulos concluded that "the impact of immigration on fiscal balance is extremely small relative to the size of the overall imbalance itself. Thus, immigration should be viewed neither as a major source of the existing imbalance nor as a potential solution to it."[22]

A Stockholm University economist, Kjetil Storesletten, took a different approach. Observing that immigrants are younger than native-born Americans, he speculated that if skilled immigrants arrived and got jobs and started paying taxes immediately, they would be able to generate large positive net fiscal effects. Storesletten explored whether selective, skill-based immigration could be the sole means of balancing the federal budget and carrying the aging Baby Boom generation without painful fiscal reform. He calculated the present value of the government's gain from admitting an additional immigrant. Storesletten's analysis took into account the increase in interest rates and decrease in wages triggered by an immigrant influx, and the adverse impact of these on federal finances. He found that selective immigration, taking in more high-skilled and medium-skilled immigrants, "can remove the need for future fiscal reform." However, an increase in immigrants "with the age and skills composition of average current [original emphasis] immigrants cannot, in itself, induce long-run budget balance."[23]

Storesletten asked himself what would be the minimum number of skilled immigrants America would have to admit every year in order to balance the federal budget while maintaining current tax and spending policies. He found that immigration would have to rise from 0.44 percent of the population to 0.62 percent, or about 1.6 million immigrants, all of them aged 40-44 and highly skilled. When their families were

admitted too, he said, this meant increasing immigration to 108 percent of the population.[24] Storesletten's result implies that at a *minimum*, even relying on highly-skilled immigrants, in order to achieve fiscal balance without painful changes n taxes and benefits, America would have to admit 2.8 million immigrants every year (if 0.62 percent corresponds to 1.6 million, then 1.08 percent corresponds to 2.8 million). It also implies that over 75 years America would have to take in 120 million skilled immigrants and a total of 210 million immigrant adults and children. Even skill-based immigration would work, then, only if applied in massive doses.

Building on their analysis for *The New Americans*, in 2000 fee and Miller revisited the fiscal impact of immigration. This time they assumed that the federal budget is adjusted so that the non-Social Security debt/GDP ratio never falls below 0.8, and the Social Security trust fund never falls below the level needed to fully cover the following year's costs. That is, Social Security tax rates are assumed to begin rising in 2028, and other federal tax rates start rising in 2048. The NPVs of immigration for Social Security were always positive, especially beyond a 25-year time horizon, going from $18,000 1998 dollars over a 25-year horizon to $27,000 over a 50-year horizon and $29,000 over a 75-year horizon.[25] This probably reflects the higher Social Security tax rate beginning in 2028.

Lee and Miller also calculated the effect on Social Security of permanently increasing annual net immigration by 100,000 a year. The result was quite close to those of Social Security's sensitivity test: it would shave the long-term actuarial deficit by 0.06 percent, which they called a "very small effect." Lee and Miller concluded that a higher immigration level would benefit Social Security, but that "the effect is quite small."[26]

In 2000 Auerbach and Oreopoulos returned to the generational accounting-based examination of the future fiscal impact of immigration. Again, they found that changing the level of immigration made only a small difference relative to the overall imbalance in American government finances. This time, however, they took immigrants' skills into account as well, and found that devoting about half the current level of immigration to persons with at least some college education would have a larger impact than merely altering the level of immigration, and "does have the potential to reduce the fiscal burdens on future generations."[27]

Together with Ryan D. Edwards, one of his graduate students, Lee investigated the fiscal impact of demographic change in general in 2001. Along the way, they addressed the fiscal effects of immigration. Lee and Edwards pointed out that eliminating Social Security's long-term actuarial deficit "would require an additional 5 million immigrants a year, every year." Moreover, demographic studies showed that changing the immigration level does not affect the old-age dependency ratio much. "To have a substantial effect, it is necessary to have an exponentially rising stream of immigrants." While long-run fiscal impacts per immigrant are important, they concluded, "only massive and accelerating increases in the volume of immigration would have an important aggregate fiscal effect, given the current composition of the immigrant stream." While skill-based immigration could hove more impact, "in our view, immigration is only a weak policy instrument for reducing the fiscal consequences of population aging."[28]

The Silence of the SSA

Last but not least, a telling indicator that immigration is not all that important for Social Security is that it has so far received little attention in the Social Security Administration's own publications. Now, if immigration is of decisive importance for Social Security, it would stand to reason that the SSA's publications would give lots of space to it. One would expect to find numerous studies, notes and articles spelling out immigration's contribution to Social Security's revenues, projecting how various levels of higher immigration would improve the long-term outlook of the program, explaining the impact of skilled immigration on the program s cash flow, and so on.

So far, there have been no Actuarial Studies or Actuarial Notes on immigration's impact on Social Security.

Social Security has published a quarterly journal, the *Social Security Bulletin*, continuously since 1937, containing articles discussing the legislative history of Social Security, the effects of amendments to the Social Security Act on the program's financial outlook, and various economic and demographic developments that affect Social Security. It turns out that in the entire period from 1937 through 2000, the latest year available online and at the University of Michigan Library, the *Social Security Bulletin* contains a grand total of one article on immigration and Social Security—repeat, one—the Orcutt and Regets study, published in 1996.

Perhaps there are more immigration articles in the *Bulletin*'s pipeline. Perhaps an Actuarial Study on immigration's role in Social Security's finances is in the works. But so far, pickings on immigration in Social Security's own publications are terribly slim. This indicates, one would think, that the Social Security Administration itself probably doesn't take immigration's contribution to Social Security's finances all that seriously. And if so, that is surely because the SSA figures that that contribution doesn't amount to much now and is unlikely to later.

Summary

Quite apart from the negative consequences to labor productivity and wages likely to ensue from swamping America with immigrants, most immigrants are poor, meaning they are poor sources of Social Security revenue. As for the high-skill immigrants, the additional revenue their presence might generate for Social Security is diminished by their frequently being cheaper than similar American workers, by the phenomenon ofjob displacement, and by frequent H-1B fraud whereby temporary foreign workers and their employers pay no Social Security taxes.

When examined attentively, the 1997 National Research Council study on the impacts of immigration undermines rather than supports the idea that immigration will be importantly helpful for Social Security. Other studies of the fiscal role of immigration by economists indicate either that immigration will play a minor role in improving American public finances and those of Social Security, or that it must be done in massive amounts to have a major effect. And the Social Security Administration itself is paying little attention to immigration in its publications, a sign that perhaps the SSA does not deem immigration a very important help to Social Security.

[1] David Pattison, "The Distribution of OASDI Taxes and Benefits by

Income Decile, *Social Security Bulletin*, vol. 58, no. 2 (Summer 1995), pp. 21-22, and p. 27, Table 3, OASDI taxes and benefits, by person pre-OASDI income decile.

[2] Federal Minimum Wage Rates Under the Fair Labor Standards Act," at www.dlo.gov/esa/minwage/chart.

[3] Table 2 source: Ethnic and Hispanic Statistics Branch, Population Division, U.S. Bureau of the Census, *Current Population Survey*, March 1999, Table 2.8, Total Money Income of Foreign Born Persons by Year of Entry and Sex: March 1999.

[4] Harriet Orcutt Duleep and Mark C. Regets, "Social Security and Immigrant Earnings," *Social Security Bulletin*, vol. 59, no. 2 Summer 1996), pp. 23-25, 27.

5 George J. Borjas, *Heaven's Door: Immigration Policy and the American Economy* (Princeton: Princeton University Press, 1999), pp. 23-28.

[6] Duleep and Regets, "Social Security and Immigrant Earnings," p. 26.

[7] Borjas, *Heaven's Door*, pp. 30-31.

[8] *2002 OASDI Annual Report*, pp. 126-127, Table VI.Al.- Contribution and Benefit Base and Contribution Rates.

[9] Donald L. Barlett and James B. Steele, *The Great American Tax Dodge: How Spiraling Fraud and Avoidance Are Killing Fairness Destroying the Income Tax*, *and Costing You* (Boston: Little, Brown & Co., 2000), pp. 37-39.

[10] An exception to this would be when the American high-tech worker is paid a salary above Social Security's maximum taxable income and the immigrant who displaces him receives a salary which is lower than the American's but still above the maximum taxable income, and the American finds another job which also pays above the maximum. In that case, the displacement results in no offsettng revenue loss to Social Security; rather the net gain is equal to the tax paid by the immigrant.

[11] Norman Matloff, "Debugging Immigration," *National Review*, October 9, 1995, pp. 28-29.

[12] "Foreign Legions: A U.S. Recruiter Goes Far Afield to Bring In High-Tech Workers," *Wall Street Journal*, January 8, 1998.

[13] See, e.g. "AILA Fact Sheet: Social Impact Of Immigrants," p. 1; National Immigration Forum, "Immigrants and the Economy," p. 1; Moore, *Fiscal Portrait of the Newest Americans*, p. 1; Peters, "What Works? III. Immigration and the U.S. Economy," p. 4; Ewing, "Immigration Policy for the 21st Century: The Case for Legalization of Undocumented Immigrants," pp. 2, 15.

[14] Smitb and Edmonston, eds., *The New Americans,* p. 319.

[15] Ibid., pp. 324-327.

[16] Ibid., p. 336.

[17] Ibid., p. 334, Table 7.5. Average Fiscal Impact of an Immigrant Overall and by Education Level (1996 dollars).

[18] Ibid., p. 337, Table 7.6. Average Fiscal Impact of an Immigrant (Net Present Value) by Scenario and Level of Government (1996 dollars).

[19] Ibid., p. 354.

[20] Ibid., pp. 341-343.

[21] Ibid., pp. 343-344.

[22] Alan J. Auerbach and Philip Oreopoulos, "Analyzing the Fiscal Impact of U.S. Immigration," *American Economic Review,* vol. 89, no. 2 (May 1999), pp. 176-180.

[23] Kjetil Storesletten, "Sustaining Fiscal Policy through Immigration," *Journal of Political Economy*, vol. 108, no. 2 (April 2000), pp. 300-301.

[24] Ibid., pp. 301-302.

[15] Ronald Lee and Timothy Miller, "Immigration, Social Security, and Broader Fiscal Impacts," *American Economic Review*, vol. 90, no. 2 (May 2000), pp. 350-353.

[16] Ibid., pp. 353-354.

[17] Alan J. Auerbach and Philip Oreopoulos, "The Fiscal Effect of U.S. Immigration: A Generational Accounting Perspective," in James M. Poterba, ed., *Tax Policy and the Economy*, vol. 14 (2000), National Bureau of Economic Research (Cambridge, MA: MIT Press, 2000), pp. 123-151.

[28] Rosa D. Lee and Ryan D. Edwards, "The Fiscal Impact of Population Change, in Little and Triest, eds., *Seismic Shifts: The Economic Impact of Demographic Change*, p. 216.

CHAPTER NINE:
DESTROYING AMERICA TO SAVE SOCIAL SECURITY?

So far we have confined ourselves to endeavoring to show purely through economic arguments that immigration is unlikely to be effective for shoring up Social Security. However, massively increased immigration will have consequences ramifying far beyond Social Security, and these will without exception be disastrous. Even if massively increasing immigration were useful for Social Security—and it won't be—the collateral damage will far outweigh any positive contribution.

Population Explosion

The immigration strategy for Social Security will entail enormous increases in our population. Let's summarize our findings.

- Maintaining the worker/beneficiary ratio at the current level, as Peter Francese recommended, would require additional adult immigration exceeding four million a year in 2013-2028, and exceeding five million a year in 2017-2025. Adding the 900,000 annual net immigrants Social Security already assumes, we get immigration exceeding five or six million for most of these years. By 2080 the cumulative increment to the taxpaying labor force would be 183.6 million persons, making the total 2080 labor force 385.9 million persons, two and half times bigger than the 153.5 million-strong labor force of 2001. These figures greatly understate total immigration, because they omit minor children, unemployed spouses, and elderly relatives.
- Doubling annual net immigration, as Wattenberg suggested, would mean 150 million immigrants over 75 years. This would increase our population from 267 million in 1997 to 417 million by 2072, an increase of 56 percent not counting children born to both indigenous Americans and immigrants.
- The immigration sensitivity test implies that eliminating Social Security's long-term actuarial deficit through increased immigration requires total annual net immigration of 3.6 million, about quadruple today's net immigration. Over 75 years, this comes to 270 million immigrants, which would almost double America's current population, for a total population of 557 million by 2077.
- Kjetil Storesletten's analysis found that *at a minimum*, even relying on highly-skilled immigrants, in order to achieve fiscal balance without painful changes in taxes and benefits, America would have to admit 2.8 million immigrants every year. Over 75 years, this means 210 million immigrant adults and children.

So no matter how we slice it, relying on immigration to rescue Social Security means enormous population growth.

Environmental Overload

Obviously, this sustained, massive increase in population would very seriously strain our environment and ruin it irreparably. There would be especially severe consequences for our water supplies, land use, and agriculture. There is a huge literature about the environmental consequences of enormous population growth; we will touch on some of the main points here.

America's water resources are already under terrible strain. As is well known, so much water is diverted from the Colorado River for human use in six western states, including California and Nevada, that only a trickle actually reaches its mouth. The sort of massive population increases mentioned above would replicate this phenomenon for rivers all over the country. Pumping groundwater from the underlying Ogallala aquifer for irrigation has enabled us to turn the old Dust Bowl area of Nebraska, Kansas, Oklahoma and Texas into a global breadbasket. Unfortunately, agricultural historian John Opie observes, most of this water is unrenewable, ancient water, isolated from its sources thousands of years ago. Over one-third of the Ogallala's water is already gone, and it is now being pumped out ten or more times faster than it is being replenished. For example, according to the Texas Water Development Board, in 1997, 6,231 ,000 acre-feet of water were taken out of the Ogallala while only 438,910 acre-feet flowed into it. "Pumping the Ogallala remains an unrepeatable and irreversible experiment n continuous depletion," Opie warns. At current rates of consumption, he points out, the Ogallala will not last another fifty years; it can at most supply one more prosperous generation.[1] But the need to feed a greatly increased population from higher immigration will, of course, drive extraction substantially above current rates, accelerating the aquifers drawdown. What then?

There is only so much land in America, and the enormous population growth caused by the "immigration solution" will greatly increase our claims on that land. It is quite obvious that population growth is the main engine driving urban sprawl. In the 1990s, the U.S. Department of Agriculture estimated, rural land was developed at an average of three million acres a year. Sustaining this rate of development until 2100 would mean developing 300 million rural acres, a land area equal to 57 percent of the land east of the Mississippi River.[2]

Here things get ugly. Tearing up farmland to house and employ our greatly increased population and to create landfills—the detritus created by a much larger population has to go somewhere—will collide with our ability to feed it. A given piece of land cannot at one and the same time be both a residential development and a farm, a highway and a form, a landfill and a farm, and so on. We will face a gruesome predicament: more and more agricultural land will be gobbled up for urban sprawl at the same time we need to raise more and more food. We have about 375 million acres of crop land left. Developing 300 million acres means about 80 percent of it will be gone by 2100.[3]

Now, it is obviously impossible to feed a population more than twice today's size with only about 20 percent of the agricultural land we now have and use. Even if we greatly increased fertilizer use, it would be unlikely to avail much; plants can absorb only so much nutrient material. If we developed raw wilderness land instead, so as to limit the loss of agricultural acreage, we would necessarily have to sacrifice much of our forest land, which will impair our ecosystems ability to supply us with umber and paper products and, more importantly, to absorb carbon dioxide and supply oxygen.

It stands to reason, too, that pollution would also much increase, unless offset by enormously increased investment in environmental protection. However, with America already investing hundreds of billions of dollars in plant and equipment to prevent mass immigration from ruinously depressing labor productivity, we will be hard put to raise the money needed for pollution control.

The environmental impact will spread beyond America to the rest of the world. Immigrants come here above all to become affluent. As soon as they can, they adopt the American way of life. In the process, they shift from making modest demands on the environment to making much heavier ones. A massive population migration to America, then, will necessarily increase humanity's total demands on the world ecosystem. Since much of what Americans consume is imported, a much larger American population will greatly accelerate the pollution and resource drawdown in foreign countries.

Mass Immigration and Energy

Immigration will also have very baleful effects on America's energy situation. Immigration has already become the main driver of American population growth. Immigrants and their descendants accounted for 44.3 percent of the growth in American population between 1970 and 1990, and, according to Steven Camarota of the Center for Immigration Studies, for 69 percent of population growth from 1990 to 20O0.[4] In the entire 1970-2000 period, immigrants and their descendants born in America accounted for roughly 54.6 percent of our population growth.[5]

In 1973-2000, American energy consumption rose from 75.808 quadrillion BTUs, or quads, to 99.035 quads, an increase of 30.6 percent. Per capita energy consumption actually fell, from 360 million BTUs in 1973 to 352 million BTUs in 2000. This means that population growth accounted for the entire increase. Immigration accounted for over half of it: 54.6 percent (.546 x 1.00 = .546). Moreover, as immigration produces a rising share of population growth, it will also account for a rising share of total American energy use.

California's energy crisis is instructive as to what greater immigration means. In 1969-1999, California's total energy consumption more than doubled, even though per-capita use grew only 22.9 percent (from 5,655 kilowatt-hours to 6,952). Why? Because California's population rose from 19.7 million to 33.1 million (up 68 percent). And immigration accounted for some 95 percent of this gain.[7]

It necessarily follows that trying to strengthen Social Security with a huge increase in immigration will hugely increase our energy consumption.

Meanwhile, the energy rug is going to be pulled out from under us. Several knowledgeable petroleum geologists, such as Colin Campbell, Kenneth Deffeyes, Jean Laherrére, and L. F. Ivanhoe, are projecting that sometime between now and 2010, the world's output of conventional (i.e., easily accessed and extracted crude) oil will peak and then irreversibly decline. Oil extraction in the 48 continental United States peaked in 1970 (as M. King Hubbert had predicted); today America imports well over half its oil supply. World oil discoveries peaked in 1962; currently, humanity is consuming oil about four times as fast as it is finding it. Among energy sources, conventional oil has no peer for portability, ease of storage, versatility, and energy yield, and directly supplies about 40 percent of the world s primary energy needs.[8] Indeed, it is one of the main factors underwriting our affluent, comfortable, modern way of life. It follows that when conventional oil is no longer cheap and plentiful, our way of life will be disrupted and become unsustainable.

As for alternative energy sources, relying on them is wishful thinking. Processing unconventional oil is energy-costly. Extraction of shale oil is forbiddingly tough. Oil

shale requires not only mining, but processing: crushing the rock, heating it to 900 degrees Fahrenheit, liquefying the organic matter in the rock, processing it into oil by adding hydrogen, then refining it. Resultant waste requires disposal. Net energy yield is at best slightly positive. "It is doubtful that shale oil can ever play a significant role in replacing world oil supplies, if it can replace them at all," geologist Water Youngquist concludes. "Shale oil cannot possibly make the United States energy self-sufficient in terms of liquid fuel."[9]

Extracting heavy oil requires heat (often steam or hot water) and solvents. On average, one oil barrels worth of energy must be expended to get two barrels of heavy oil. Extracting oil from tar sands is underway in Canada, but requires much heat, currently supplied by natural gas, an average of one thousand cubic feet of gas required per barrel of tar sand oil.[10] With present extraction technologies, these alternatives are not promising.

As for making ethanol from corn, after examining the process and factoring in all its energy costs, including those entailed by growing corn, Cornell University agricultural science professor David Pimentel concluded that a gallon of corn-based ethanol costs about 71 percent more energy than it contains, making ethanol a loser.[11] What's more, significantly replacing oil with ethanol would require colossal expansion of corn cultivation, massively depleting water and topsoil, and competing with other land use, such as housing our immigration-swollen population.

Wind, nuclear and solar power are only limited energy substitutes: aircraft, trains, tractor-trailer rigs, farm machinery, and construction equipment cannot use wind, nukes or solar panels.

In short, the drying-up of cheap conventional oil will put us in a hideous predicament. In that context, massively increased immigration will be a disaster. Not only will it mightily increase our demand for dwindling ol supplies, most immigrants have no human capital to offer to help cope with the energy problem. In fact, immigration will make coping disastrously harder. Floods of immigrant labor will exacerbate productivity and wage stagnation, thereby worsening economic stagnation, making it harder to afford costlier energy, goods, and services—and harder to finance urgently needed huge investments in alternative energy sources and more energy-efficient transport such as railroads, meaning our energy plight will worsen. Should hydrocarbon inputs for agriculture decline, yields on already-heavily worked croplands, depleted of natural nutrients, will fall, forcing us to bring more land under cultivation—which will collide with the urban sprawl due to immigration-driven population growth. Mass immigration and the decline of conventional oil, then, will create a vicious circle, each one worsening the problems spawned by the other.

Colin Campbell warns that America "has to somehow find a way to cut its demand [for oil] by at least five percent a year."[12] This will be impossible without halting immigration. We cannot cut demand for el while allowing the main force driving it higher to keep operating. longer mass immigration continues, the more per capita energy use must fall to compensate—meaning the more austere and impoverished our lives must become. In words, continued mass immigration in a context of declining conventional oil output will rapidly turn America into an impoverished nation with Third World living standards—in which case Social Security will collapse along with everything else.

The Social Security case for increasing immigration is, as we have seen, chimerical; the environmental and energy arguments for stopping it are much, much stronger.

Immigration and Balkanization

The overwhelming majority of our recent immigrants have been nonwhite, mostly from Latin America. Much higher immigration will presumably preserve this pattern. The political context makes continued, much less greatly increased, massive nonwhite immigration very dangerous. America is no longer demanding assimilation; indeed, our widespread practice of bilingual education and embrace of multiculturalism work against it. With a far greater, and growing, share of our population composed of immigrants and their children, immigrants would quite naturally and understandably have a dwindling incentive, and need, to assimilate to an indigenous culture and value system alien to their own. Moreover, through affirmative action, set-asides for minority businesses, race-based gerrymandering of congressional districts, and so on, America is operating a racial spoils system giving minorities a compelling interest in stressing their minority status and their sense of grievance against, separation from, and hostility to the majority. And various American intellectuals have made a crusade out of demonizing white Americans and America itself. These facts are too we known to be arguable.

As the immigrant share of the population grows enormously and yields a growing stream of naturalized members, this will necessarily translate into very large numbers of voters, yielding growing political power enabling them to work the racial spoils system to their advantage. Bluntly put, our educational and racial polices and a highly influential section of American opinion are encouraging Balkanization. One need not demonize immigrants—and I do not—to understand that massively increasing nonwhite immigration in such a poisonous context would be imprudent.

Moreover, evidence is accumulating of rising tensions and conflict between immigrants such as Mexicans and Koreans on the one hand, and black and white Americans on the other.[13] Environmental ruin and the resultant economic contraction will, of course, make these tensions and conflicts even worse, as rising numbers of people fight over a shrinking economic pie. It stands to reason, too, that crime committed by immigrants—which is already serious regarding drug smuggling and dealing[14]—will worsen as well. In a context of militant Islam, massively increased immigration also obviously opens us to a greatly increased risk of terrorism at home.

Social Security + Immigration = Trouble?

Some perceptive observers have warned that Social Security itself may very well become a source of rancor and division in an America which has absorbed a large immigrant population. Back in 1989 Juan Williams looked ahead to a future shifting from confrontations between blacks and whites to confrontations between rich and poor and between young and old, with immigration complicating the picture. Rising Social Security and medical benefit costs, he noted, would heavily burden young families, especially immigrant families trying to get ahead. The retiree population would not only grow but would be "disproportionately white while the workforce paying taxes to sustain Social Security will be disproportionately Asian, Hispanic and black." More recently,

Robert Samuelson argued that the simultaneous demographic trends of massive immigration and the aging of our native population, taken together, may be socially dangerous. Future workers will shoulder heavy tax loads to support retired Baby Boomers. Given immigration, many workers may have fairly low incomes. They may be poorer than many of the retirees they are subsidizing. They will also be more heavily Latino and Asian than the retirees, who will be mainly white and African Americans. The possibilities for economic, social and ethnic tensions and resentments are obvious.[15]

Again, one need not demonize immigrants to be worried about this. I am not happy about coughing up 12.4 percent of my taxable self-employment income to support the retirements of total strangers who are, most of them, white like me—especially because supporting them prevents me from saving for my own old age. So I find it quite understandable that a low-income Hispanic, Asian, or Arab immigrant would bitterly resent paying a heavy and highly regressive payroll tax to support idle white and back American retirees, many of whom have achieved accumulations of wealth which he is unlikely to match. Why should he want to? What if he doesn't? Were I in his shoes, I would unquestionably feel the same way.

Nevertheless, this very understandable and human sentiment on the part of younger immigrant taxpayers has the potential to tear America apart. That being the case, leaning on immigrants to support our old-age entitlement programs looks like a formula for borrowing trouble.

Summary

As a result of the massive immigration proposed as a solution for Social Security, America as we know *it will probably collapse under ruinous environmental, economic, and political problems*. Massive immigration would wreck America to serve Social Security—implying a grotesque inversion of priorities. We would do far better to transform Social Security to serve America.

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[1] John Opie, *Ogallala: Water for a Dry Land*, 2nd ed. (Lincoln, NE and London; University of Nebraska Press, 2000), pp. xiv-xv, 3, 5, 344, 326; Texas Water Development Board figures: "For Texas, Water and Not Oil is Liquid Gold," *New York Times*, April 16, 2001.

[2] Leon Kolankiewicz, "Immigration, Population, and the New Census Bureau Projections," *Center for Immigration Studies Backgrounder*, June 2000, p. 6.

[3] Ibid.

[4] Leon F. Bouvier and Lindsey Grant, *How Many Americans? Population, Immigration and the Environment* (San Francisco; Sierra Club Books, 1994), p. 65, Table 2.1, Contribution of Post-1900 Immigration to the Population of the U.S. in 1990; Steven A. Camarota, "Immigrants in the United States-2000: A Snapshot of America's Foreign-Born Population," Center for Immigration Studies Backgrounder, January 2001, pp. 3-5.

[5] Immigrants and their descendants contributed 20.098 million out of the 45,410 million in 1970-1990 population growth. Camarota figures that 1990s immigrants plus births to immigrants in the 1990s contributed 69 percent of 1990-2000 population growth. 281.422 million (2000)- 248.718 million (1990) = 32.704; multiplying by .69 gives 22.57 million. Adding this to the 20.098 million gives 42.668 million. The 1970-2000 population change was 78.120 million, meaning immigrants and their descendants accounted for 54.6 percent of it.

[6] Dr. Donald F. Anthrop, *Running in Place; Immigration's Impact on U.S. Energy Usage* (Washington: Federation for American Immigration Reform, Fair Horizon Press, 2002), p. 2, Table 1, Resident U.S. Population, Energy Consumption, and Per Capita Energy Consumption.

[7] Ric Oberlink, "Too Many People, Too Little Power," *The Social Contract*, vol. XI, no.4 (Summer 2001), pp. 265-267.

[8] Some recommended sources regarding oil; Kenneth S. Deffeyes, *Hubbert's Peak: The Impending World Oil Shortage* (Princeton, NJ; Princeton University Press, 2001); Colin J. Campbell and Jean H. Laherreré, "The End of Cheap Oil," *Scientific American*, March 1998, pp. 78-83; R. W. Bentley, "Global 0il & Gas Depletion: An Overview, *Energy Policy*, 30 (2002), 189-205; Walter Youngquist, *GeoDestinies: The Inevitable Control of Earth Resources Over Nations and Individuals* (Portland, OR: National Book Company, 1997). Campbell edits the monthly Association for the Study of Peak Oil Newsletter, Ivanhoe the quarterly *Hubbert Center Newsletter*, both of them outstanding publications. They can be accessed at www.oilcrisis.com.

[9] Walter Youngquist, "Shale Oil—The Elusive Energy," *Hubbert Center Newsletter*, no. 98/4; Youngquist, *GeoDestinies*, pp. 219-222.

[10] Joseph P. Riva, "Is the World's Oil Barrel Half Full or Half Empty?" *Hubbert Center Newsletter*, no. 99/2, p. 4; L. F. Ivanhoe, "Canada's Future Oil Production," *Hubbert Center Newsletter*, no. 2002/2, p. 2.

[11] David Pimentel, "Energy and Dollar Casts of Ethanol Production With Corn," *Hubbert Center Newsletter*, no. 98/2. Others have come to the same conclusion. Youngquist, *GeoDestinies*, pp. 242-243.

[12] Colin J. Campbell, "Peak Oil: A Turning Point for Mankind," *Hubbert Center Newsletter*, no. 2001/2-1, p. 3.

[13] See, e.g., "Cultures Clash Following Fight; Blacks, Latinos At Loggerheads In Columbia Heights," *Washington Post*, October 30, 1992.

[14] See, e.g., "Mexican Drug Dealers Turning U.S. Towns Into Major Depots," *New York Times*, November 16, 2002; Marijuana Found Thriving in Forests," *New York Times*, November 16, 2002.

[15] Juan Williams, "The '90s: The New Mosaic of Race; Age, Income & Immigration Replace Black-White Conflict," *Washington Post*, November 19, 1989; Robert J. Samuelson, "Little Candor and Loud Silences," *Washington Post*, November 1, 2000.

CHAPTER TEN:
CONCLUSIONS AND FURTHER REFLECTIONS

Our investigation has shown that immigration is no answer for Social Security at all. Indeed, vastly increasing immigration in order to shore up Social Security is a recipe for national ruin.

Immigrationism: The Naked Emperor

We see, too, that the immigrationist emperor has no clothes. Throughout, we have seen that the immigrationists' approach is shockingly simple-minded, their claims easily demolished. Immigrationists are ideologues and self-serving advocates. They are not scholars, they are not economists, and they are certainly not Social Security experts. Their knowledge of Social Security is skin-deep. Their lack of rigor and scholarship is appalling. Although they incessantly trumpet the economic and fiscal gains from immigration, their "economics' is ill-informed and simplistic, ignoring the impact of enormously increased immigration on other variables. Their treatment of studies such as *The New Americans* is slapdash and tendentious. Their obliviousness to the predictable economic, social, political, and environmental consequences of vastly higher levels of immigration is frightening.

The Imprudence of the Immigration "Cure"

Edmund Burke famously maintained that prudence is "in politics, the first of virtues' and "the first in rank of the virtues political and moral." Rebuking the French revolutionaries, who sought to dismantle and recreate their entire society, he likened them to the "ignorant man, who is not fool enough to meddle with his clock," yet is confident that he can dismantle and reconstruct something far more complicated. "Men little think how immorally they act in rashly meddling with what they do not understand. Their delusive good intention is no excuse for their presumption."[2]

When all environmental, economic, social, and political consequences of greatly increased immigration are factored in, it is starkly clear that the immigration strategy for Social Security is horribly, terrifyingly imprudent. In admitting such huge numbers of immigrants for so long, America will obviously lay herself open to the most momentous and disastrous transformation in her history. And once this disruption is done, it cannot conceivably be undone—at least, not in any reasonably short time.

Once America becomes Balkanized, crime-ridden and chaotic, how is this to be undone, and how quickly? Historical precedents are disturbing. The chaos that followed the collapse of the Roman Empire endured for decades. Ethnic and religious strife in Ireland has persisted for centuries, and is still going on. The ethnic turbulence in the Balkans has lasted for generations and endures to this day, and there is no sign of anything that will end it.

The terrible problem of irreversibility is especially true of the environmental ruin which huge increases in population at American living standards would necessarily cause. Once an ecosystem is wrecked, how do we unwreck it? Reversing environmental devastation makes reassembling Humpty Dumpty look like child's play. Once our topsoil,

the product of millions of years of slow accumulation, is exhausted, eroded, or salinized, it will not be fertile again for centuries or millennia, if ever. As biologist Garrett Hardin points out, "The Tigris-Euphrates valley, in which irrigation was practiced for centuries, was ruined by salination two thousand years ago—and it is still ruined."[3] Once the ancient water in the Ogallala is drained, it will not come back for centuries, if it comes back at all. Once fish stocks are exhausted, they will not be restored. Once an old-growth forest is gone, even if it is replanted, it will take centuries to restore it to its previous condition (even assuming the forest can grow back on the depleted soil). A species driven to extinction will not reappear; how can it? Once wild and agricultural land has been covered with roads and buildings to accommodate the population growth which exploding immigration will entail, converting it back to wilderness or forms will be next to impossible: where would the population using this land go, and where would we dump all the rubble from the demolished roads and buildings?

We dare not increase immigration to try to rescue Social Security. We just simply don't dare. This strategy is utterly without merit. It means throwing dice with our destiny, with our nation's survival. It means mounting the scaffold on a bet that the guillotine won't work. We cannot permit it to happen. That immigrationists even suggest it proves that they are too reckless, too irresponsible, too shortsighted, too ignorant of economics, history, and ecology, too disdainful of consequences, to deserve to be listened to.

Ethical Problems With the Immigration Solution

Although this study has, properly, put its greatest stress on the economic problems of using immigration for Social Security, there are very disquieting ethical problems about this "solution" that must be faced as well.

Although enthusiasts for immigration as a cure for Social Security passionately profess their liking and admiration for immigrants, amounting to xenophilia, and tar immigration restrictionists as nativists, xenophobes, bigots, and racists, using immigration to save Social Security is, in fact, a colossal act of exploitation of immigrants.

Let's cut through the clouds of politically correct cant and pro-immigrant rhetoric to the ugly bottom line. The whole point of the immigration solution for Social Security is to import a new population of taxpayers to support aging Americans. In other words, to engineer a colossal transfer of resources from immigrant taxpayers to American beneficiaries. Most of these immigrants will be desperately poor people, in low-skill, low-income, menial lobs. Many of them will be in this country illegally, with all the vulnerability to exploitation which that implies. Many will be working under grinding and brutal conditions without benefit of union protection—in slaughterhouses and meatpacking plants, for instance—the sort of grim life our grandfathers revolted against in the bloody labor struggles of the Great Depression. These swarms of mostly poor toilers will be called upon to pay a very heavy and regressive tax to support aging, idle Americans who enjoyed far pleasanter and better-rewarded working lives than they ever will.

Why is this strategy being proposed? Because American politicians and the American public are too cowardly, too decadent, too weak-willed to shoulder the burden of tax increases and benefit cuts needed to put Social Security's house in order. Recall

that Ben Wattenberg called immigration "the easy solution to the Social Security crisis." *That* is the dirty little secret, the shabby appeal, of the immigration solution. It's easy. It seems to offer a way of avoiding hard facts, ducking hard choices, and solving a problem without taking any pain.

Easy? I can think of some other words to describe this strategy of grinding Mexican peons, Iranian dishwashers, Indian hotel clerks, African checkout cashiers, and frightened, browbeaten illegals to support retired Americans in comfortable idleness: *Selfish. Cowardly Decadent. Despicable. Shameful.*

Yes, *despicable* and *shameful*. Pro-immigrant? Mr. Wattenberg ought to be ashamed of himself. So should Tamar Jacoby, Gary Endelman, Richard Reeves, Stephen Moore, and all the rest of that crowd. The sickening chutzpah of these comfortable, well-paid, pampered pontificators, passing themselves off as the tolerant, liberal, broad-minded enlightened ones welcoming the huddled masses-while touting a shabby scheme for idling on taxes squeezed from the wretched refuse!

Squeezing Social Security taxes out of temporary guest workers is, if possible, even worse. It boils down to picking their pockets and then packing them off before they can get any benefits. If that isn't exploitation, there's no such animal.

As for trying to raise more Social Security revenue through skill-based immigration, this has an additional ethical problem. This approach makes America into a parasite slurping up the human capital of the Third World—human capital which is desperately needed in the immigrants' own countries, where problems and suffering of all kinds are much worse than they are here. The reader is invited to ask himself if it is morally defensible to prop up Social Security by draining away engineering, computer science, and medical students from Third World countries while populations in those countries lack health care and the other amenities we take for granted.

Many Americans resent the use of their tax dollars to provide foreign aid to these countries. Does not the strategy of relying on immigration to support Social Security in effect compel these immigrants to use *their* tax dollars to provide a kind of foreign aid to us, to Social Security beneficiaries?

Sometimes the liberal pro-immigrant mask drops and the ugly underlying selfishness of the American elite grimaces forth. Recall Richard Reeves's whine that "we need these people desperately. . . . Who is going to pay my Social Security and Medicare?" There you have it.

Moreover, leaning on immigrants to solve our old-age entitlement crisis for us is dastardly and childish and ill behooves a nation which prides itself on its greatness. If this strategy for Social Security were adopted, it would announce that we are pigmies who have inherited a giant's castle we are not up to maintaining; that we have become a nation of whiny, decadent jellyfish, too feckless and weak-willed to solve our own problems, too invertebrate in character to merit the respect of the world.

The coming Social Security crisis is our problem, not the immigrants'. It is manifestly unfair to dump the burden of solving it onto them. Social Security is our cross, not theirs. Should we not find the character to carry it ourselves?

Beyond the ethical problem of unfairness to the immigrants, there is the problem of unfairness to young Americans and Americans yet unborn. These are the Americans who will have to live in a Balkanized, crime-ridden nation with a broken economy and a ruined ecosystem after Mr. Reeves and the Baby Boomers have collected their Social Security and Medicare benefits and died off. Someone who actually hated America could hardly hurt these future generations worse. The reader is invited to ponder whether it is fair to pitchfork these helpless, blameless Americans—our children, our children's children, their children—into a nightmare existence simply because the Baby Boomers insisted on "getting theirs" and the present generation of politicians and voters wanted an easy way out.

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[1] Edmund Burke, *Further Reflections on the Revolution in France*, ed. Daniel E. Ritchie (Indianapolis: Liberty Fund, Inc. 1992), pp. 15, 91.

[2] Ibid., p. 196.

[3] Garrett Hardin, *Creative Altruism: An Ecologist Questions Motives* (Petoskey, MI: Social Contract Press, 1999), p. 85.