Manhattan Institute's "Lifetime Fiscal Impact of Immigrants" Report Shows Upside to Immigration

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Abstract

In "The Lifetime Fiscal Impact of Immigrants" (2024), the Manhattan Institute (MI) constructed a sophisticated model to estimate the likely lifetime fiscal effect of new immigrants on the US federal budget. MI concludes that the average immigrant will be fiscally positive a modest $10,000 in present value over a lifetime but that immigrants without a bachelor's degree will be extremely fiscally negative. MI projects that the recent increase in migration will cost the federal government over $1.1 trillion over a century.

A careful review of MI's model finds that this result hinges on several unlikely assumptions, such as new arrivals causing large, immediate increases in defense spending, and no increase in corporate tax payments. When more realistic assumptions are adopted, MI's model indicates that young, low-skilled immigrants will produce a positive lifetime contribution to the federal budget. For instance, the fiscal effect for a 22-year-old high school dropout changes from a negative $315,000 to a positive $45,000. After making revisions, including accounting for lower rates of benefits usage by immigrants, the model predicts the new group of unlawful entrants will likely be positive an aggregate $4.9 trillion.

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Introduction

The Manhattan Institute (MI) developed a fiscal model that assigns all federal government spending to individuals and projects it forward 100 years.[1] MI bases its projections on the average effect of an immigrant of the same age and educational attainment today. To do this, it incorporates assumptions about future spending and taxes, productivity, emigration, and mortality. A discount rate of 3 percent is used to transform the result into present value terms for 2024.

MI's primary finding is that the average immigrant is projected to have a positive lifetime effect on the federal budget of $10,000 in present value terms. This result is significant because it suggests that Congress could triple current immigration levels without worsening the US deficit. By itself, this overall positive finding is important and aligns with broader research on this topic.[2] On the other hand, MI also concludes that high-skilled immigrants provide all the benefit, while low-skilled immigrants of all ages have a significantly negative fiscal impact.

MI took the time to evaluate a huge quantity of data and assumptions. The report's author generously shared their model, allowing the Cato Institute to analyze its results in detail. MI's report is a sophisticated effort to analyze the fiscal effects of immigrants on the federal government budget. The report avoids many common mistakes that sometimes plague fiscal effects of immigration research,[3] like ignoring tax revenues or focusing on households rather than individuals.[4]

Nonetheless, MI's report still contains some unlikely assumptions. Here are the major issues:

- It assumes that immigrants cause a large, immediate increase in military spending;

- It excludes significant tax revenues from corporations;

- It inaccurately attributes the costs of the child tax credit solely to parents;

- It assumes that low-skilled immigrants are just as unlikely to leave the US before retirement as high-skilled immigrants; and

- It inaccurately accounts for immigrants' effect on interest payments.

Once these problems are addressed, MI's model reveals that many immigrants who have no college education actually provide significant fiscal benefits. For instance, the revisions transform the expected lifetime fiscal impact of a 22-year-old high school dropout from a negative $315,000 to a positive $45,000—over four times MI's reported effect of an average immigrant. After revisions, the average fiscal benefit is estimated to be $627,000.

When estimating the effect of recent illegal immigrants, MI's report makes certain assumptions that are also unwarranted:

- It assumes new illegal immigrants are as uneducated as those from a decade ago;

- It assumes recent illegal immigrants are as old as other immigrants;

- It assumes illegal immigrants are just as likely to use entitlements as other groups; and

- It fails to account for interest costs on deportation spending.

When correctly interpreted, MI's data show that the recent surge in immigration will actually provide a net benefit of about $4.9 trillion to the federal government, rather than cost $1.15 trillion. Even if MI were right about that cost, the data also show that mass deportation would cost nearly $1.6 trillion over the same time frame when interest on the debt from deportation spending is considered.

1 The Basic Premise: Deport two-thirds of America?

MI does not conclude that low-skilled immigrants are uniquely harmful to the economy. In fact, the report finds that immigrants without a college degree are actually significantly less costly to the government than similarly educated US-born Americans. However, MI argues that America would be more prosperous without them. Since two-thirds of the US population has no college degree, MI's conclusion implies an absurd result: that America would be more prosperous without two-thirds of its population and workforce.[5]

Consider every job that requires no college degree: wait staff, cooks, farm workers, maids, childcare workers, home health aides, construction laborers, secretaries, delivery workers, bus drivers, and janitorial staff. Without these essential workers, America's economy would unwind. Millions of educated Americans would end up having to take on less productive jobs, reduce their hours, or stop working altogether to attend to the tasks previously performed by these workers.

Of course, MI does not advocate for the deportation of all middle- and working-class *Americans*, but the inescapable implication of its claims about *immigrants* is that doing so would be a net positive. MI can accurately argue, "It won't be *that* bad since we're not deporting everyone," but if deporting all low-skilled Americans is not a good economic policy, deporting all low-skilled immigrants equally misguided. Obviously, any policy based on such a conclusion should provoke consideration of whether there may be problems with MI's methodology that led to it.

2 Issues with the Manhattan Institute's Basic Model for All Immigrants

2.1 Including military spending as "benefits" caused by immigrants

MI's model projects the likely lifetime fiscal effect of an immigrant over 100 years by examining current US spending and taxation. A key assumption that MI makes about future spending is that immigrants will immediately increase defense spending. MI calculates this amount by dividing the US defense budget by the US population. This assumption is a major reason the report finds such negative fiscal effects for immigration. It is incorrect. The defense budget is a textbook example of a "pure public good"—a resource that does not require an increase in spending with additional population. If MI wants to argue otherwise, it should present supporting evidence for this position, but it has not.

Of course, immigrants do *benefit* from national defense, but they can do so without ever necessitating additional spending, thereby reducing the cost borne by the US-born population. As the National Academies of Science, Engineering and Medicine (NAS) analysis observed in its 2017 report on this topic, the fiscal cost for natural-born citizens "would have been larger without the addition of the first-generation group because federal expenditures on public goods... would have to be divided among a smaller population. Some argue that this is an important benefit of immigration."[6] MI's analysis should account for this benefit.

MI states that even if immigrants do not *cause* more defense spending, they still "enable" it. Here, MI seems to want to have it both ways. While it claims that low-skilled immigrants are fiscally negative and economically harmful, it simultaneously suggests that those immigrants "enable the federal government to grow [defense] spending simply with a larger labor pool and economy." If immigrants are shrinking the share of the economy available to Americans due to fiscal deficits as it claims, how are they also "enabling" them to spend more on defense? There is an unresolved tension there that needs to be addressed.

If MI wants to argue that Congress is spending some of the fiscal surplus from immigration on defense, it must 1) quantify the surplus being spent because since it would count as a fiscal benefit of immigration, and 2) allocate the expenses enabled by the immigration surplus to fiscally positive immigrants rather than those who are fiscally negative, as the latter are not contributing to a fiscal surplus. In any case, as shown below, there is no evidence that immigration increases defense spending even in this indirect way.

MI says that an increase in population will lead to more people joining the military, triggering more defense spending. However, the military share of the US population has fallen by 70 percent over the last generation (Table 1).[7] While some immigrants do serve in the military, they are half as likely to be recruited as US-born persons, meaning that immigration is increasing the population of a group significantly less likely to be recruited. Ultimately, US troop levels are not determined by the size of the US population but by foreign affairs and political considerations.[8]

Table 1
US population growth doesn't drive higher troop levels
Military Personnel, Share of US Population, 1955–2024

Year	Military Personnel	Share of US Population
1955	2,935,107	1.78%
1965	2,655,389	1.37%
1975	2,128,120	0.98%
1985	2,151,032	0.90%
1995	1,536,138	0.58%
2005	1,386,407	0.47%
2015	1,313,940	0.41%
2024	1,306,673	0.39%

Source: Defense Manpower Data Center. "Department of Defense Personnel, Workforce Reports & Publications."

MI does say that "real military spending per capita is higher today than during the 1980s before the Cold War ended."[9] If this were true, it would not demonstrate that immigrants caused the increased spending, but this statement is not true (or was only true for two years, 1980 and 1981). The average military spending for the 1980s was much higher than today. Indeed, the general trend over the last 70 years is that inflation-adjusted defense spending has fallen both per person and per US-born person (Figure 1).[10]

Figure 1 shows that nothing is unreasonable about a model that predicts a decline in real defense spending per capita, even if such a model is not necessary for attributing changes in defense spending to the preferences of native-born citizens. The only reason that defense spending per capita has not fallen further is that US productivity has increased dramatically, and the US military must pay competitive salaries to recruit personnel—again, a phenomenon that exists regardless of the immigrant population. Since the 1960s, US military spending has halved as a share of GDP.

Figure 2 makes the definitive point: if defense is a public good that grows with any population increases, then spending on it should behave like other public goods, which typically increase proportionally to the population. Figure 2 compares the growth in national defense and foreign affairs spending (pure public goods) to the growth in state police and fire spending (congestible public goods). Defense spending increased 83 percent less than state police spending because defense spending is a pure public good. It is not like other public goods. MI should not have modeled all public goods in the same way.

Figure 1

Defense spending has fallen in the past 70 years

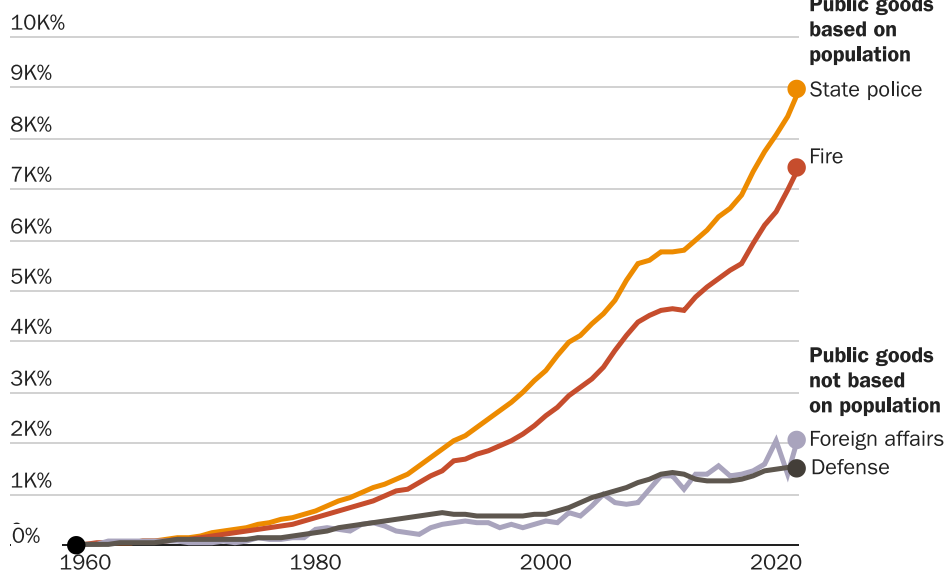Real defense spending per person and per US-born person, 1953–2023
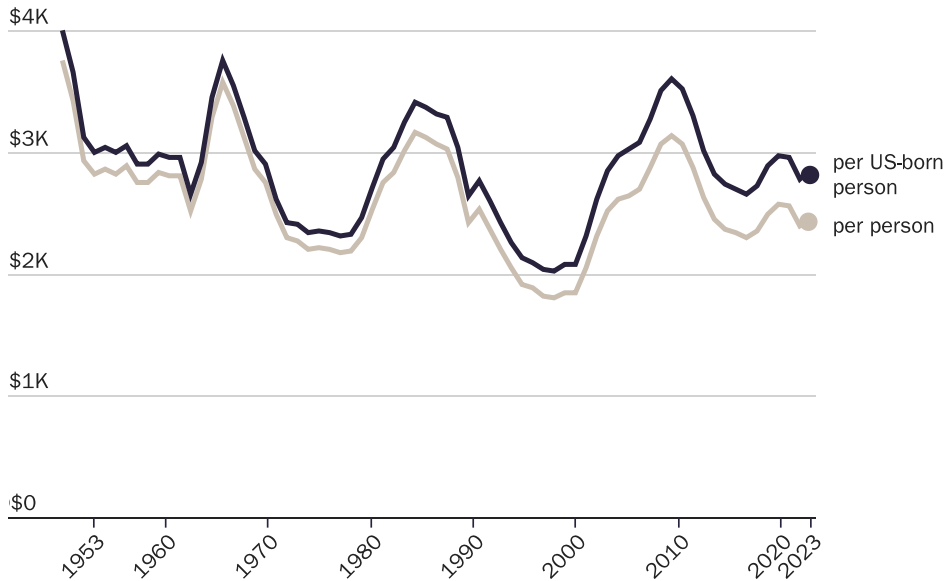
Figure 2

Defense spending doesn't respond to population growth like other public goods

Percent change in nominal spending since 1959

Even if MI could show that population causes defense spending to rise by some amount, it would need to specifically connect that increase to the immigrant population, not the overall population, because its analysis is limited to spending caused *by immigrants* directly. However, MI has not attempted to do so. Figure 1 does not imply that immigrant population growth increases defense spending. The major spikes in defense spending in the 20th century were primarily due to wars, changes in Americans' perception of threats, and political factors.[11] If defense spending spikes again in the 21st century, it will be because of a change in foreign policy, not because of immigration.

A more technical problem with the MI approach is that it is not enough to hypothesize that "immigration will *eventually* cause the government to spend more on the military" since the timing matters enormously for these calculations. If "eventually" does not occur until 2100, the present value of that increase would be a tenth of that same increase today. MI does not present any theory about timing to justify its assumption about *immediate* increases in military spending. Additionally, the compounding interest costs on debt incurred from the expected increase in defense spending means that the assumption that immigrants cause an immediate increase in defense spending would lead to huge changes in the overall effect.

The issue of projecting the cost of pure public goods spending and attributing them to immigrants or natives is genuinely a complex problem, but the bottom line is that anyone claiming that defense spending is not a pure public good and that immigration increases military spending bears the burden of proof to demonstrate the amount and timing of that increase. MI has not done this, and the weight of the evidence presented above suggests otherwise.

Because the defense budget is so large, this issue of pure public goods spending is critical to MI's entire analysis. MI's analysis is that mass deportation would cause Congress to reduce pure public goods spending by approximately $40 billion annually.[12] This is not plausible. MI should not have included higher spending on pure public goods as a cost of immigration.

2.2 Excluding significant tax revenue streams

MI only includes revenue from federal income, payroll, and excise taxes. The most significant federal revenue overlooked is corporate income taxes. MI argues that since it allocates payroll taxes entirely to workers, it would be inconsistent not to allocate corporate income taxes entirely to corporate owners.

Yet the incidence of corporate tax does fall primarily, if not entirely, on workers.[13] Tax Foundation's literature survey suggests that at least 70 percent of the corporate tax is paid through lower wages on workers.[14] Moreover, as economist Michael Clemens explains, the "incidence" of a tax—whether it is borne by profits or wages—is irrelevant to immigration analysis since the profits on the immigrant's labor would not happen without the workers' presence in the United States.[15] The fact that the labor share of total income has largely been constant around 70 percent, despite the labor force nearly doubling, implies that additional wage workers create a proportional increase in capital income.[16] In other words, immigration increases corporate profits that are subject to taxes, so fiscal analysts should credit the workers for taxes paid on those profits.

The same reasoning applies to payroll taxes. If the worker were never employed, there would be no wages to tax, either from the employer or the worker. There is nothing inconsistent or incorrect about allocating the majority of corporate taxes to workers.

MI worries that if any corporate taxes are credited to investors—the estimated 30 percent from the Tax Foundation—it could include some taxes from foreign investors, since some foreigners own stock in US companies, so although the revenue is from a US source, the ownership is foreign. However, once 70

percent is apportioned to workers, somewhat reducing the amount of taxes by US stockholders would not substantially affect the revenue from low-skilled workers. MI should not have ignored entirely half a trillion dollars in corporate income tax revenue.[17]

2.3   Misattributing child and earned income tax credits

Instead of analyzing refundable tax credits as separate benefit streams, MI's model subtracts these credits from the income tax liability of immigrant taxpayers. The primary issue is that the Child Tax Credit is a benefit for the child, dependent on the child's eligibility.[18] The Earned Income Tax Credit is similar but is a benefit to the entire household based on household size, which includes US citizen spouses and children.[19]

Of course, the child tax credit also indirectly benefits the parent, but that is true of all government spending on children. The credit would not occur if not for the child. Accuracy requires attributing the cost to the actual intended beneficiary. This accuracy in attribution is important for assessing how easy it would be to limit spending attributed to immigrants, as it is impossible to limit benefits to US citizens, or for isolating the fiscal effects of admitting families versus single adults or deporting an immigrant head of household. Since MI uses its model to identify these types of fact patterns, it should properly apportion the credits to the legally intended beneficiary.

Including the second or third generations in a fiscal analysis is fine, but it raises much more complex modeling issues for future projections, such as estimating fertility rates and accounting for the second generation's tax payments as adults. More importantly, it is misleading to consider only the costs of the second generation (or portions of their costs), but not account for their taxes paid, especially when—controlling for age—the second generation has much higher incomes than immigrants or other generations of Americans.[20]

Regardless, MI states its analysis is of the effect of immigrants, not immigrants and descendants:

> *This report treats immigrants as individuals in order to avoid treating households of married native-born and immigrant residents as half-immigrant and half-native . . . Another advantage of choosing individuals as the unit of analysis is that the fiscal-impact calculation is done over a lifetime analysis, and households suffer compositional changes over time. Children are born and then leave the household, older family members are cared for and die, and couples join and sometimes separate. The main estimate for this report is the lifetime fiscal impact of an immigrant, so it makes more intuitive sense to treat them as individuals rather than to combine them with their native-born spouses or children.*

MI does not assign any other child or household benefits to the head of the household, including cash benefits. Again, this is a legitimately difficult issue, but to be accurate in attribution of costs and consistent with this methodology, MI should have attributed the child tax credits to children and earned income tax credits to everyone in the household, not just the taxpayer.

2.4   Indexing negative income tax payments to productivity

Besides consistency and accuracy, using net tax payments (taxes minus credits) presents another issue with MI's model. The model indexes income tax payments to projected productivity growth on the correct assumption that productivity will result in higher future income tax receipts. If this adjustment were applied

to income tax payments before credits, as it should be, it would imply that income taxes would rise relative to child tax credits, reducing the fiscal deficit for recipients.

However, since the child tax credits exceed some lower-skilled immigrants' income tax payments during their parenting years, the MI model now projects that productivity growth will exacerbate their fiscal deficit—the opposite of what will actually happen. MI should not have indexed negative income tax payments to productivity. MI's model is missing too much federal revenue to be considered a reliable estimate of the fiscal effects of immigration (Table 2).[21]

Table 2
Manhattan Institute understates immigrant tax payments
Federal taxes paid by immigrants by educational attainment and US-born

Education	Manhattan	Cato (With Corporate Income)	Difference (Cato − Manhattan)
Immigrants with:			
No High School	60,576,542,228	77,703,759,934	17,127,217,706
High School	101,383,022,707	122,294,245,224	20,911,222,517
Some College	90,101,989,851	94,209,376,400	4,107,386,549
Bachelor's	221,875,376,618	230,130,682,552	8,255,305,934
Advanced degree	274,505,031,251	297,425,666,028	22,920,634,777
Total immigrant	748,441,962,656	821,763,730,138	73,321,767,482
Total US-born	3,004,591,737,594	3,703,095,703,728	698,503,966,134
Total both	**3,753,033,700,250**	**4,524,859,433,866**	**771,825,733,616**

Sources: Daniel Di Martino, "The Lifetime Fiscal Impact of Immigrants" Manhattan Institute, September 19, 2024; Cato Institute's calculations using U.S. Census Bureau, Current Population Survey, 2023 Annual Social and Economic Supplement; U.S. Bureau of Economic Analysis, National Income and Product Accounts (NIPA), U.S. Department of Commerce, 2024.

2.5 Assuming that low-skilled immigrants were just as likely to emigrate as high-skilled

MI is analyzing the "lifetime" of an immigrant, which it defines as up to 100 years into the future. Given the extremely long projection period, the assumptions about immigrant emigration and mortality become extremely important, especially as the elderly account for most fiscal costs.

MI assumes identical death and emigration rates for high school dropouts as bachelor's degree holders. This assumption is wrong. Here is the immigrant population who entered in 1990 or 1991 as it was recorded in the 1994 Current Population Survey Annual Social and Economic Supplement (the oldest edition to have this question and the most recent cohort consistently measured over the years) compared to the population recorded in the 2024 edition. As it shows, immigrants with more than a high school education were 34 percentage points more likely than high school dropouts to make it to 2024 in the United States. The difference for high school graduates was 16 percentage points.

Given its policy conclusions, MI should have accounted for varying emigration and mortality rates by education.

Emigration and mortality observed in Current Population Survey ASEC by education
1994–2024

	2024	1994	Percent in 2024
Age group	60+	30+	
Cohort	1990–91	1990–91	
Education:			
No High School	138,761	273,581	50.7%
High School Graduates	153,914	223,275	68.9%
Higher education	302,245	356,548	84.8%
Total	594,920	853,404	69.7%

Source: Current Population Survey, Annual Social and Economic Supplement, 1994, 2023

2.6 Accounting of interest costs

One particularly interesting aspect of MI's report is its attempt to calculate the interest costs of debt incurred or avoided due to immigrants. Unfortunately, MI does not accurately account for these costs. The report takes the total new interest payments on the debt and then uses the projected lifetime net costs (2025-2124) to apportion interest costs in each year (2025, 2026, etc.) by the immigrant's share of 2025-2124 spending.

This is wrong in two ways. First, new interest on debt includes the interest on debt from pure public goods (such as defense), not from benefits for the immigrants, as well as the interest costs on debt incurred before the immigrant even arrived. Second, if someone is fiscally positive every year from 2025 to 2055, they should be accruing debt savings each year, which will compound annually and then cover at least a portion of the fiscal deficits that they incur at the end of their life (see Figure 4). A net negative lifetime fiscal effect can potentially even turn positive when interest savings are accounted for properly (Table 4).

The correct way to calculate the interest costs of a new immigrant is to take the net fiscal effect of the immigrant in all previous years and the current year and multiply the result by the interest rate for that year. This method—which accounts for compounding—actually makes certain groups (very old and very young arrivals without much higher education) more fiscally negative, while making the rest in the middle usually much more fiscally positive.

2.7 Adopting more realistic assumptions leads to very different results

MI also has a long list of other assumptions to analyze on assigning costs to immigrants, but without completely recreating the entire study, it is not possible to properly account for those assumptions or correct the issues identified above.[22] To attempt to quantify the significance of these issues, the following aspects of MI's model were tweaked to create a "revised MI model":

1. Excluding pure public goods (mainly defense) from immigrant cost calculations;

2. Including corporate taxes apportioned 70:30 to workers versus owners;[23]

3. Apportioning child tax credits to children and earned income tax credits to all household members;[24]

4. Replacing the current income tax stream with one where tax credits are netted out but not indexed to productivity growth when the net effect is negative (primarily before age 18);[25]

9

5. Adjusting the average 30-year emigration rate up or down for each group using the data in Table 3 above; and

6. Calculating interest savings or costs using the sum of all current and past deficits or surpluses multiplied by the projected interest rate.[26]

Accounting for these six issues produces significantly different results. MI's headline result is that the average immigrant is a positive $10,000 lifetime. This result improves to a positive $88,000 after accounting for the actual immigrant education-age distribution from the most recent Current Population Survey (CPS) Annual Social and Economic Supplement (ASEC).[27] Using the revised methodology, the average immigrant has a positive lifetime net fiscal effect of $626,602 (see Appendix Table A for detailed figures).

This surplus is generated primarily from skilled immigrants, but unlike in the original model, all immigrants without college degrees entering between ages 18 and 24 become fiscally positive only after just these limited changes. Table 4 changes none of MI's other assumptions about the trillions of dollars in spending on immigrants over the next 100 years. Many low-skilled immigrants are fiscally positive for the federal government under the partially corrected MI model. For instance, the average high school dropout aged 18-24 moves from a fiscal negative of nearly $314,574 to a positive $44,856. Therefore, for one million immigrants in this age and education group, the fiscal impact shifts from a negative $315 billion to a positive $45 billion. Meanwhile, one million high school graduates would be a positive fiscal impact of $105 billion.

Table 4

Lifetime fiscal effect of an immigrant according to the Manhattan Institute fiscal impact model, with and without revisions

Dropouts of high school, age 18–24

	Benefit Costs	Taxes	Interest	Sum
MI Headline results	**−$332,074**	**$143,290**	**−$125,789**	**−$314,574**
+ Correct interest calculation	−$332,074	$143,290	−$149,843	−$338,627
+ Correct benefits (no public goods)	−$240,221	$143,290	−$23,873	−$120,805
+ Correct taxes (credits + corporate)	−$240,221	$207,516	$32,000	−$705
+ Correct emigration (Final)	**−$193,731**	**$189,669**	**$48,918**	**$44,856**

Graduates of high school, age 18–24

	Benefit Costs	Taxes	Interest	Sum
MI Headline results	−$318,849	$193,727	−$83,370	**−$208,491**
+ Correct interest calculation	−$318,849	$193,727	−$73,684	**−$198,806**
+ Correct benefits (no public goods)	−$226,996	$193,727	$31,102	**−$2,166**
+ Correct taxes (credits + corporate)	−$226,996	$241,452	$89,594	**$104,050**
+ Correct emigration (Final)	−$225,407	$240,541	$89,733	**$104,867**

Source: Author's calculations based on Daniel Di Martino, "The Lifetime Fiscal Impact of Immigrants" Manhattan Institute, September 19, 2024; and Cato Institute's calculations using U.S. Census Bureau, Current Population Survey, 2023 Annual Social and Economic Supplement; U.S. Bureau of Economic Analysis, National Income and Product Accounts (NIPA), U.S. Department of Commerce, 2024; Congressional Budget Office, "Budget and Economic Data," 2024.

Figure 3 displays how the corrections change the fiscal effects for 18-24-year-olds for the three low-skilled categories. These reversals may seem astounding, but several small issues can add up over the course of a lifetime. In each case, the corrections reverse the conclusion of MI's paper. Young low-skilled immigrants
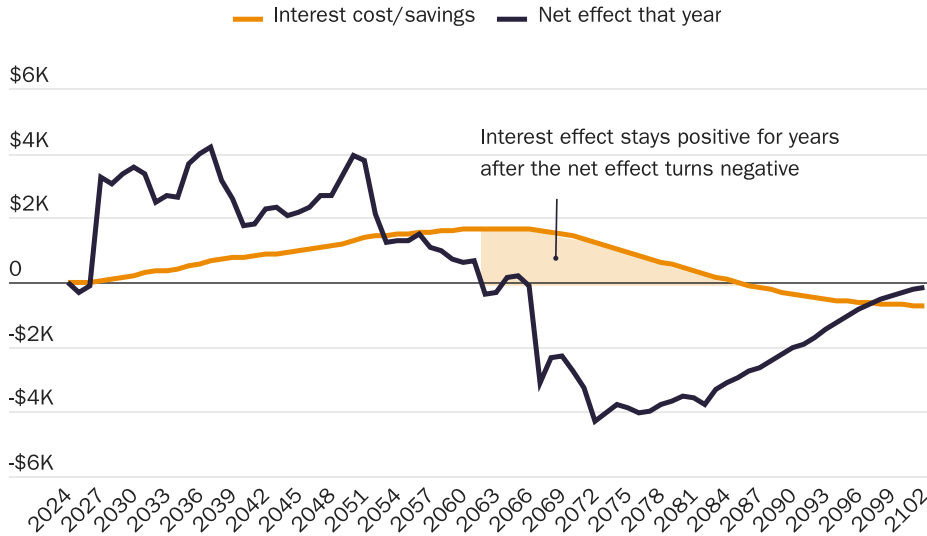
are fiscally positive.

Correcting Manhattan Institute's model eliminates negative fiscal effects for many

Lifetime fiscal effect of immigrant, ages 18–24, in MI's model
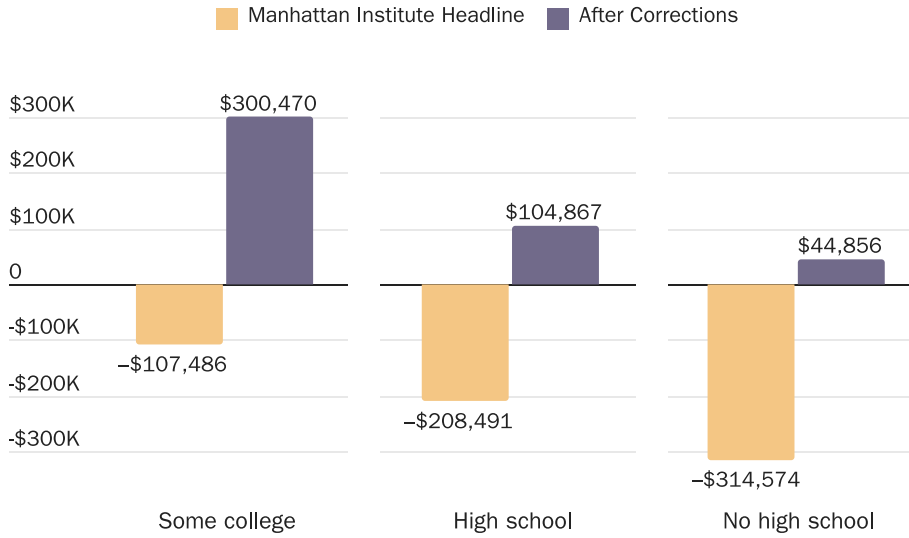
Source: Author's calculations based on Daniel Di Martino, "The Lifetime Fiscal Impact of Immigrants" Manhattan Institute, September 19, 2024; and Cato Institute's calculations using U.S. Census Bureau, Current Population Survey, 2023 Annual Social and Economic Supplement; U.S. Bureau of Economic Analysis, National Income and Product Accounts (NIPA), U.S. Department of Commerce, 2024; Congressional Budget Office, "Budget and Economic Data," 2024.

For high school dropouts, the interest cost calculation is critically important to the outcome. Figure 4 shows MI's projected fiscal effects for young high school dropouts. The effect on interest payments stays positive for years after the immigrant's annual effect turns negative because the immigrant has built up such a large fiscal surplus during their working years.

Manhattan Institute's model projects positive effects for young high school dropouts

Discounted fiscal effect of high school dropout, ages 18–24, in MI's corrected model*

Interest cost/savings ▬ Net effect that year

Interest effect stays positive for years
after the net effect turns negative

Author's calculations based on Daniel Di Martino, "The Lifetime Fiscal Impact of Immigrants" Manhattan
Institute, September 19, 2024; and Cato Institute's calculations using U.S. Census Bureau, Current
Population Survey, 2023 Annual Social and Economic Supplement; U.S. Bureau of Economic Analysis,
National Income and Product Accounts (NIPA), U.S. Department of Commerce, 2024; Congressional
Budget Office, "Budget and Economic Data," 2024.
Note: Values account for mortality and emigration (which is why the net effect decreases in old age)

3   Issues with MI's estimate for illegal immigrants

Naturally, these revisions already call into question the headline conclusion that the recent illegal immigration surge will cost $1.15 trillion. However, the report needs additional modifications in its section on illegal immigration.

3.1   Assuming that recent illegal immigrants will be as uneducated as those a decade ago

The first issue with this estimate is that MI uses an estimate of illegal immigrant educational attainment from 2015—nearly a decade ago, long before the current group arrived. MI compounds this problem by misinterpreting the 2015 data that it uses, believing that the category for college graduates (bachelor's and higher) was "some college and above," which halved the number of college graduates in the analysis.

Table 5 compares illegal immigrant educational attainment in 2015 to newly arrived Hispanic immigrants in 2015 and newly arrived Hispanic immigrants in 2024. The most notable decline is in the category for immigrants without high school degrees. Hispanic immigrants include legal immigrants, but the overall distribution and 2015 estimate for illegal immigrants track closely among the lower-skilled population. The 2024 estimate in Table 5 uses the changes in Hispanic immigrant education to adjust the 2015 estimate for illegal immigrants.

Manhattan Institute understates illegal immigrant educational attainment
Immigrant educational attainment, select groups

	Legal and illegal Hispanic			Illegal (MI)	Actual Illegal	Illegal adjusted
	2015	2024	Difference	2015	2015	2024
No High School	44.5%	30.2%	−14.3%	45.9%	46.0%	31.7%
High school	26.3%	32.0%	5.7%	40.0%	25.6%	31.3%
Some college	9.7%	11.0%	1.3%	6.8%	14.4%	15.7%
Bachelor's	19.4%	26.8%	7.3%	7.0%	14.0%	21.3%

Source: Author's calculations based on Daniel Di Martino, "The Lifetime Fiscal Impact of Immigrants" Manhattan Institute, September 19, 2024; and Cato Institute's calculations using U.S. Census Bureau, Current Population Survey, 2023 Annual Social and Economic Supplement

The typical academic method of estimating illegal immigrant education using the American Community Survey shows even higher levels of education for illegal immigrants entering in 2021 and 2022, but the ACS microdata was only available through 2022 at the time this review was written.[28]

3.2 Assuming illegal immigrants have the same age distribution as all other immigrants

Obviously, age is an essential part of this estimate because younger immigrants have more years to work and pay taxes. MI assumes that new illegal immigrants share the same age distribution as all immigrants, but this assumption is flawed. Data from the Border Patrol shows that there are almost no retirees crossing the border.[29] MI overstates the share of border-crossing retirees (65+) by a factor of 13. It is off by fourfold for the 55-64 age group. Since elderly arrivals are fiscally negative, this skews the calculation to appear much less fiscally positive than it actually is.

3.3 Assuming illegal immigrants will receive entitlements at the average rate

MI's primary estimate of the cost of the recent border surge assumes that illegal immigrants will receive entitlements at the average rate for all immigrants with similar education levels. This is untrue. Illegal immigrants are prohibited from receiving most federal benefits—entitlements, means-tested federal benefits, unemployment insurance—and the vast majority will not end up receiving legal status.[30] The law could change in the future, but this analysis is based on current legal frameworks.

3.4 Not accounting for the interest costs on deportation spending

MI states, "Mass deportations would significantly reduce the national debt over the long run." To arrive at this conclusion, MI compares the lifetime cost of an immigrant over 100 years to a one-time deportation cost of $65,000 in 2024, not including the cost of interest paid on the debt from this cost over their lifetime. The American Immigration Council has a detailed report estimating higher per-deportation costs, but setting that aside, MI states that if an immigrant has a net present value of $65,000 or more, it would be worth deporting them.[31] This reasoning would be valid if the government raised the $65,000 today in taxes, but

not if the government borrowed the deportation money, which is likely to happen absent a special mass deportation tax.

The government will incur far more debt on that $65,000 over the 100 years of the analysis because of interest on the debt. The present value of $65,000 *in debt* is not the same as the present value of $65,000. MI should use the same period of analysis for considering deportations as it does when evaluating current law. In MI's accounting, Congress could save money on the $74 trillion in unfunded Medicare and Social Security liabilities by eliminating the programs and sending everyone a check for up to $73.9 trillion today—paid for through debt.[32] Likewise, if a person spends cash to avoid a debt of $50 (in present value) accrued over their lifetime, it would be a good financial move. If they're borrowing to avoid it, it would be a bad one.

Take a particular case. MI's model implies that a high school graduate who arrives before age 18 will likely cost the federal government $76,590. If the government borrows this amount to deport that person right now, it will actually cost the government nearly $196,842 over the person's lifetime due to interest on that debt. Deportation will not "pay for itself." Ultimately, a $65,000 deportation will cost the US government nearly three times as much: $181,555 over 100 years. Again, if MI is going to account for the interest costs of immigrants, it should also account for the interest costs of deportations.

4   MI's model shows that the effect of recent illegal immigration is positive.

Table 6 applies these four edits to MI's calculations:

1. First, it applies the earlier corrections to the benefits and tax flows described above. This change alone reverses the sign of the recent immigrant flow to being positive.

2. It updates the 2015 educational distribution to 2024.

3. It corrects the age distribution.

4. It shows two scenarios one in which illegal immigrants use no entitlements or welfare (except for WIC and worker compensation) and the other in which they use 25 percent as many benefits and pay 10 percent fewer taxes.

The assumption that no illegal immigrants today will end up receiving benefits is too strong because some illegal immigrants today will ultimately receive legal status under current law.[33] But the idea that it will be a majority is very unlikely. Over 90 percent of those in immigration courts will not end up receiving relief from deportation,[34] and some forms of relief do not trigger full benefits eligibility.[35] Illegal immigrants have wages somewhat lower than legal immigrants with the same characteristics (about 10 percent historically), so it makes sense to assume their tax payments would be proportionally lower.[36]

Line 5 of Table 6 assumes a conservative 25 percent participation in welfare and entitlement programs and a 10 percent lower wage. The most likely outcome of the recent immigration surge in the MI model is a lifetime positive $4.9 trillion to the federal government. Regardless, the cost of deportation far exceeds the lifetime fiscal costs of even the lowest skilled group in MI's analysis. In no scenario does mass deportation make fiscal sense, even if there are no adjustments to MI's methods.

Table 6

MI understates illegal immigrant fiscal benefits and overstates deportation costs

Lifetime fiscal effect of all recent illegal immigrants, according to the Manhattan Institute fiscal impact model, and MI's cost of a deportation, Billions of Dollars

Correcting MI results	No High School	High School	Some College	Bachelor's	Advanced	Total
MI Headline Results	**−768**	**−467**	**−26**	**58**	**142**	**−1,062**
+ Correcting taxes & benefits	−310	−62	107	315	514	**564**
+ Updating Education to 2024	−214	−48	248	892	1,720	**2,598**
+ Updating Age	−113	13	260	897	1,702	**2,759**
+ 25% eligibility for welfare, 10% less taxes	**462**	**676**	**663**	**1,148**	**1,910**	**4,858**

Cost of deportation	No HS	HS	Some College	Bachelor's	Advanced	Total
MI's 1-Year Cost of Deportation Now	−179	−177	−89	−66	−55	**−566**
Corrected 100-Year Cost of Deportation Now	−500	−494	−249	−183	−154	**−1580**

Source: Authors calculations based on Daniel Di Martino, "The Lifetime Fiscal Impact of Immigrants" Manhattan Institute, September 19, 2024; and Cato Institute's calculations using U.S. Census Bureau, Current Population Survey, 2023 Annual Social and Economic Supplement; U.S. Bureau of Economic Analysis, National Income and Product Accounts (NIPA), U.S. Department of Commerce, 2024; Congressional Budget Office, "Budget and Economic Data," 2024; TRAC, "Border Patrol Arrests," 2024.

5   Problems with MI's policy conclusions

From its fiscal accounting exercise, MI draws several unjustified policy conclusions, including the idea that mass deportation would be in the economic interest of the United States. But regardless of the outcome of the fiscal accounting exercise, illegal immigration may still have positive economic effects that outweigh the fiscally negative costs.

5.1   Not accounting for the indirect economic effects of immigration

All of these estimates—including this review's revisions—do not account for the indirect economic effects of immigration that increase US tax revenues. Here are four areas:

1. *Effect of immigration on capital income.* Immigrants increase corporate profits and incentivize more investment in the United States, which indirectly increases tax revenues. Economists Mark Colas and Dominik Sachs estimate this effect at $750 per person annually.[37] This would flip many other low-skilled immigrants positive in the MI model.

2. *Effect of immigration on employment of skilled US workers.* For instance, economists Patricia Cortés and José Tessada find that "low-skilled immigration increases average hours of market work and the probability of working long hours of women at the top quartile of the wage distribution."[38]

3. *Effect of immigration on property values.* Jacob Vigdor and other economists have shown that immigration increases property values.[39] Higher property values lead to higher property tax revenues,

income revenues from rents, capital gains taxes, and other taxes on property transfers.

4. Effect on total factor productivity. The Congressional Budget Office estimates that one-third of the fiscal benefit of the recent surge of immigration will come from improvements in productivity caused by the workers.[40]

Again, because of compounding interest, if these effects boost an immigrant to be fiscally positive during their working lives—which would certainly be true in many cases—then the effect of those immigrants would turn positive in many cases. There is no reason to criticize MI for failing to incorporate these difficult-to-estimate effects into its model. However, knowledge of these effects should inform the policies that it advocates. Just because the fiscal accounting of a specific group is negative in a fiscal accounting model does not mean that the group harms budgets or the economy when broader economic effects are considered.

Any effects reported in a pure fiscal accounting method must be understated and represent the lower bound of any fiscal effect.

5.2   Proposing inefficient policy solutions

Setting aside these issues, MI's main policy proposals to deal with those immigrants who are fiscally negative are deportation and exclusion from the United States. One important point is that educational attainment is a very blunt measurement. Among unskilled immigrants, there is significant variation in employment rates and wages. There is no reason to treat every high school graduate as if they were the average. For instance, requiring a job offer with an above-average wage would be significantly less restrictive than an outright ban based solely on educational attainment.

But there are much more fiscally sound alternatives to these types of restrictions, which are readily apparent in MI's data. Table 7 shows the lifetime per capita effects of immigrants at different ages of arrival without eligibility for entitlements or welfare under MI's model (after applying the corrections above). As it shows, almost all immigrants would be fiscally positive, dramatically so. Indeed, in this case, low-skilled immigrants without benefits become more positive than high-skilled immigrants with benefits.

Table 7
Lifetime fiscal effect of the average immigrant by age and education, according to the revised Manhattan Institute fiscal impact model, without welfare or entitlement use*

Entry age	No High School	High School	Some College	Bachelor's degree	Graduate degree
0–17	$200,595	$348,692	$557,030	$1,145,107	$1,988,426
18–24	$356,720	$459,900	$765,546	$1,538,214	$2,840,243
25–34	$324,511	$410,654	$723,763	$1,400,575	$2,676,024
35–44	$271,214	$341,411	$269,642	$1,101,695	$2,112,357
45–54	$206,222	$239,651	$420,247	$711,259	$1,476,058
55–64	$123,316	$117,482	$211,805	$374,860	$834,837
65+	−$79,442	$46,191	$80,131	$116,902	$361,113

Source: Authors calculations based on Daniel Di Martino, "The Lifetime Fiscal Impact of Immigrants" Manhattan Institute, September 19, 2024; and Cato Institute's calculations using U.S. Census Bureau, Current Population Survey, 2023 Annual Social and Economic Supplement; U.S. Bureau of Economic Analysis, National Income and Product Accounts (NIPA), U.S. Department of Commerce, 2024; Congressional Budget Office, "Budget and Economic Data," 2024.
*Note: Except for WIC

The easiest, most economically efficient solution to the problem of low-skilled immigrant benefit use is obvious: offer low-skilled immigrants a status under which they can live and work in the United States without access to these benefits. Of course, if they are eligible to naturalize, they would then become eligible for benefits, but most immigrants would happily accept a status under which they were ineligible to become a US citizen in exchange for working and living here legally. The fiscal benefits from this policy proposal far outweigh all the enforcement and immigration flow tinkering that MI proposes.

MI does suggest charging a fee to allow some immigrants who can afford it to legalize their status if they cover future fiscal costs. This is also a reasonable alternative to deportation, but it should be recommended for legal immigrants as well,[41] and the government could do both. Let the immigrants choose to come or stay without benefits or pay a fee to receive benefits.[42] MI is also wrong that the fee would need to equal the full lifetime net cost because, thanks to interest savings, a much smaller fee could cover the cost. There is no reason to even consider mass deportation.

Conclusion

The Manhattan Institute has produced a complicated model of the fiscal effects of immigration on the federal budget. There are many moving parts, and this review does not attempt to validate every aspect of the model. Nonetheless, it is apparent that several revisions, on their own, significantly increase the expected fiscal benefits of immigration under the model, with the average recent immigrant improving from an average of about $10,000 to a positive $627,000 in net present value after just a few simple changes. It is noteworthy that young, low-skilled immigrants provide lifetime fiscal surpluses.

Given the federal deficit, are these results plausible? Yes, they are. The federal government receives more in taxes than it spends on anything other than pure public goods and interest on existing debt. This means that the average marginal person is a fiscal benefit to the government. Moreover, low-skilled immigrants are much less likely to receive benefits because they arrive after their schooling period, emigrate before retirement, or are subject to legal restrictions. It is plausible that MI's revised model is producing a reliable result.

The five proposed revisions to the MI model are relatively straightforward to implement: removing pure public goods, including corporate taxes, correctly attributing tax credits, adjusting emigration rates based on educational attainment, and accurately estimating interest costs. The Manhattan Institute should incorporate these changes into its model and update its policy conclusions accordingly.

Appendix

MI's headline finding that the average new immigrant is positive only $10,000 (Table 15 in MI's report). However, at least for the most recent immigrant group, the result was much more favorable to immigrants than the result reported by MI. Table A uses the age-educational attainment groupings from the March 2024 CPS ASEC for noncitizens who both said that they entered in 2024 and migrated from abroad in the last year.[43] The final educational attainment assumed for those under age 25 was the educational distribution of new immigrants aged 35 to 44.

Using this age-education structure, the average new immigrant will be positive nearly $627,000 under the revised model. The cost of the average high school graduate drops by 95 percent after revisions, with a lifetime cost of a negative $12,000 lifetime. This result is nearly indistinguishable from zero. If taxes and

benefits are estimated incorrectly by just 1.5 percent, the sign could flip positive. Accounting for the indirect economic effects would certainly put this group into the net contributor category. Regardless, for both high school graduates and high school dropouts, the young working-age population is fiscally positive lifetime on average. These estimates should not be deemed final, as other elements of the model should be validated.

Table A

Lifetime fiscal effect of the average new immigrant in 2024 by age and education, according to the Manhattan Institute fiscal impact model, with and without revisions

Ages	No High School	High School	Some College	Bachelor's	Advanced	**Total**
0–17	−$127,295	−$76,590	$165,868	$834,109	$1,694,553	**$616,124**
18–24	$44,856	$104,867	$300,470	$1,112,632	$2,480,093	**$946,675**
25–34	$14,928	$48,119	$272,322	$1,015,238	$2,277,470	**$849,926**
35+	−$362,988	−$272,873	−$193,986	$1,344,724	$2,273,510	**$631,360**
All with revisions	−$103,087	−$12,779	$91,971	$843,315	$1,849,784	**$626,602**
MI headline	−$338,023	−$271,606	−$136,611	$193,967	$873,363	**$10,616**

Source: Authors calculations based on Daniel Di Martino, "The Lifetime Fiscal Impact of Immigrants" Manhattan Institute, September 19, 2024; and Cato Institute's calculations using U.S. Census Bureau, Current Population Survey, 2023 Annual Social and Economic Supplement; U.S. Bureau of Economic Analysis, National Income and Product Accounts (NIPA), U.S. Department of Commerce, 2024; Congressional Budget Office, "Budget and Economic Data," 2024.
Notes: Manhattan Institute Table 15. The age structure of new immigrants from CPS ASEC, using 1) noncitizens who 2) entered the US from 2022-24 and 3) migrated in the last year.

Notes

[1]Daniel Di Martino, "The Lifetime Fiscal Impact of Immigrants," Manhattan Institute, September 19, 2024.

[2]Alex Nowrasteh, Sarah Eckhardt, and Michael Howard, "The Fiscal Impact of Immigration in the United States," Cato Institute White Paper, March 21, 2023.

[3]Alex Nowrasteh, "FAIR's 'Fiscal Burden of Illegal Immigration' Study Is Fatally Flawed," *Cato at Liberty* (blog), Cato Institute, September 29, 2017.

[4]Alex Nowrasteh, "The Mississippi State Auditor's Report 'How Illegal Immigration Hurts Mississippi Taxpayers' Isn't Serious," *Cato at Liberty* (blog), Cato Institute, August 22, 2024.

[5]"Employment, Wages, and Projected Change in Employment by Typical Entry-Level Education," U.S. Bureau of Labor Statistics, September 29, 2024.

[6]"The Economic and Fiscal Consequences of Immigration," National Academies of Sciences, Engineering, and Medicine, 2017.

[7]Defense Manpower Data Center, "Department of Defense Personnel, Workforce Reports & Publications."

[8]William Nordhaus, John R. Oneal, and Bruce Russett, "The Effects of the International Security Environment on National Military Expenditures: A Multicountry Study," *International Organization* 66, no. 3 (July 2012): 491–513; Benjamin O. Fordham, "Domestic Politics, International Pressure, and the Allocation of American Cold War Military Spending," *The Journal of Politics* 64, no. 1 (February 2002): 63-88.

[9]Barristan Herre and Pablo Arriagada, "Military Personnel and Spending," Our World in Data, 2013.

[10]Going back another 10 years (80 years back) would show an even steeper decline because of World War II, but it makes sense to start in the 1950s because that is when the modern US military was created. Going back 100 years to 1924 makes little sense since the modern US defense posture did not exist then, and this analysis takes for granted the continuation of current law and policy. See Table 3.1, The White House Office of Management and Budget, "Historical Tables"; US Bureau of Labor Statistics, "Consumer Price Index for All Urban Consumers: All Items in U.S. City Average," FRED, October 10, 2024.

[11]The literature on the determinants of defense spending is extensive, but does not tie defense spending to population growth or immigrant population growth. Benedict J. Clements, Sanjeev Gupta, and Saida Khamidova, "Is Military Spending Converging to a Low Level across Countries?," *Economic Modelling* 94 (January 2021): 433–41; Matthew Hauenstein, Matthew Smith, and Mark Souva, "Democracy, External Threat, and Military Spending," *Research & Politics* 8, no. 4 (October 2021); William Nordhaus, John R. Oneal, and Bruce Russett, "The Effects of the International Security Environment on National Military Expenditures: A Multicountry Study," *International Organization* 66, no. 3 (July 2012): 491–513; Benjamin O. Fordham, "Domestic Politics, International Pressure, and the Allocation of American Cold War Military Spending," *The Journal of Politics* 64, no. 1 (February 2002): 63-88.

[12]MI estimates that pure public goods spending is about $3650.58 per person. There are approximately 11 million unauthorized immigrants in 2022. See Jeffrey S. Passel and Jens Manuel Krogstad, "What we know about unauthorized immigrants living in the U.S.," Pew Research Center, July 22, 2024.

[13]Stephen J. Entin, "Labor Bears Much of the Cost of the Corporate Tax," Tax Foundation, October 24, 2017; Adam Michel, "The High Price That American Workers Pay for Corporate Taxes," The Heritage

Foundation, September 11, 2017.

[14]Stephen J. Entin, "Labor Bears Much of the Cost of the Corporate Tax," Tax Foundation, October 24, 2017.

[15]Michael A. Clemens, "The Fiscal Effect of Immigration: Reducing Bias in Influential Estimates," IZA Institute of Labor Economics, September 2022.

[16]Adam N. Michel, "AI Doesn't Change the Economics of Labor, Capital, & Taxes," *Cato at Liberty* (blog), Cato Institute, November 28, 2023.

[17]"National Income and Product Accounts," Bureau of Economic Analysis, U.S. Department of Commerce, September 26, 2024.

[18]"Child Tax Credit," Internal Revenue Service, October 3, 2024.

[19]"Income Limits and Range of EITC — Earned Income Tax Credit," Internal Revenue Service, February 7, 2024.

[20]"The Economic and Fiscal Consequences of Immigration," National Academies of Sciences, Engineering, and Medicine, 2017.

[21]MI also attributes higher excise tax payments to higher educated immigrants based on the theory that they fly and drive more, but in that case, there should be in equally proportional cut in congestible public goods spending for *lower* educated immigrants since they use those services less, but MI did not account for this. In particular, MI did not rely on Congressional Budget Office projections of future spending, which could bias the result.

[22]In particular, MI did not rely on Congressional Budget Office projections of future spending, which could bias the result.

[23]This was done by attributing the capital share to individuals based on dividend income in the CPS ASEC and attributing the worker share using income from wages and salaries.

[24]This was done using credits variables in the CPS ASEC.

[25]This was done using the credits variables and the CPS ASEC FEDTAX variable. The totals for each individual were adjusted to sum to the aggregate true total in the National Income and Product Accounts.

[26]Using the CBO's real interest rate.

[27]U.S. Census Bureau, "CPS Annual Social and Economic Supplement," March 2024.

[28]We attempted to apply the residual method to the American Community Survey (ACS) to directly estimate the educational attainment of recent illegal immigrants. That method shows them to be even more educated than the method used in Table 5, but it is difficult to identify illegal immigrants in the survey data shortly after they arrive, and this data is only available through 2022. ACS analysis from the Center for Migration Studies confirm a very sharp increase in educational attainment in the illegal immigrant population from 2012 to 2022. See Center for Migration Studies, "State and National Data Tool."

[29]"Border Patrol Arrests," Transactional Records Access Clearinghouse (TRAC).

[30]"Outcomes of Immigration Court Proceedings," Transactional Records Access Clearinghouse (TRAC).

[31]"New Report Details Catastrophic Impact of Mass Deportation and Family Separation Plans," American Immigration Council, October 2, 2024.

[32] Romina Boccia, "Medicare and Social Security Are Responsible for 100 Percent of US Unfunded Obligations," *Cato at Liberty* (blog), Cato Institute, March 20, 2024.

[33] Some "illegal immigrants" have already received temporary protected status known as "parole," but the government has largely declined to extend their status. See Hamed Aleaziz, "Biden Will Allow Legal Permission to Lapse for Migrants From 4 Countries," New York Times, October 4, 2024.

[34] "Outcomes of Immigration Court Proceedings," Transactional Records Access Clearinghouse (TRAC).

[35] "Asylum Manual Chapter 32: Withholding Status", Immigration Equality, 2024.

[36] Andrew C. Forrester and Alex Nowrasteh, "Immigrant Wages Converge with Those of Native-Born Americans," Cato Institute Immigration Research and Policy Brief No. 9, October 4, 2018.

[37] Mark Colas and Dominik Sachs, "The Indirect Fiscal Benefits of Low-Skilled Immigration," *American Economic Journal: Economic Policy* 16, no. 2 (May 2024) 515-50.

[38] Patricia Cortés and José Tessada, "Low-Skilled Immigration and the Labor Supply of Highly Skilled Women," *American Economic Journal: Applied Economics* 3, no. 3 (July 2011): 88–123.

[39] Alex Nowrasteh, "JD Vance Is Correct: Immigration Increases Housing Prices, and That's Okay," *Cato at Liberty* (blog), Cato Institute, October 2, 2024.

[40] "Effects of the Immigration Surge on the Federal Budget and the Economy," Congressional Budget Office, July 23, 2024.

[41] Alex Nowrasteh, "The Case for an Immigration Tariff: How to Create a Price-Based Visa Category," Cato Institute Policy Analysis no. 861, January 8, 2019.

[42] Alex Nowrasteh, "Path toward Citizenship or Legalization," Cato Institute, August 30, 2013.

[43] "CPS Annual Social and Economic Supplement," U.S. Census Bureau, March 2024.