3

Immigrant Demands on Public Benefits

The predominance of the low-skilled among recent immigrants means that many new arrivals work in low-wage occupations and earn incomes toward the bottom of the earnings distribution. As low wage–earners, these immigrants are likely to pay little in taxes and to make large demands on public expenditures relative to other US residents. Compounding their demands on public services, immigrants also tend to have large families. These facts have raised concern that immigration causes a net drain on US public finances and increases the net fiscal burden on native taxpayers.

The tendency for immigrants to concentrate in certain geographic areas means that the public-finance consequences of immigration are likely to vary regionally. Residents of states with larger populations of low-skilled immigrants will naturally bear a larger share of the fiscal cost associated with immigration. In addition to regional disparities, states also vary in the generosity of the public benefits they provide. Residents of states that both attract immigrants and offer generous benefits are those most exposed to immigration's net fiscal burden.

Immigrant and Native Use of Welfare Programs

Public services take many forms, including public safety (fire and police protection), public spaces (parks and recreation facilities), education, healthcare, and public assistance (welfare). It is immigrants' access to

public healthcare and public assistance that has proven most controversial. The Current Population Survey (CPS) presents information on individual participation in various types of social assistance in its Annual Demographic Files (the March Supplement). I will use CPS data for the 1994–2003 period to examine immigrant and native receipt of welfare benefits. Like the US Census of Population and Housing, the CPS includes both legal and illegal immigrants; among legal immigrants, it includes both permanent residents and those on temporary work and study visas.[1]

I classify individuals as members of households headed by a foreign-born or a native-born individual and then examine household members' usage of social assistance. Thus I count the US-born children of immigrants as members of immigrant-headed households as long as they reside with their parents or other foreign-born relatives. This approach in effect ascribes the welfare behavior of children to their parents. Households are natural groupings to examine; they are the units on which government agencies assess income taxes, property taxes, and other levies. When determining individual eligibility for means-tested benefit programs, it is typically the characteristics of the household that are taken into account (Zimmerman and Tumlin 1999). Following the academic literature, I classify a household as receiving welfare if any member received any type of social assistance, whether cash or in-kind benefits. I also examine participation by immigrant and native households in four specific entitlement programs: general assistance or Temporary Assistance for Needy Families (TANF), Supplemental Security Income (SSI), Medicaid, and food stamps.[2]

In 2002, immigrant-headed households were much more likely than native-headed households to participate in welfare programs (see table 3.1). Among immigrant households, 24.2 percent had at least one member who used some type of social assistance, compared to 14.9 percent of native households. Thus, 9.3 percent more immigrant than native households received public benefits. Since the early 1990s, academic researchers have consistently found immigrants more likely than natives to receive social assistance (Borjas and Hilton 1996; Borjas 1999a and 2002). Given that immigrants are relatively likely to earn low incomes and to live in poverty, this is hardly surprising. Participation in welfare programs is means-tested, and household income and size are the key determinants of eligibility.

1. As discussed in note 7 in Chapter 2, the census and the CPS are likely to undercount illegal immigrants. Most recent estimates of the undercount rate range from 5 percent to 15 percent.

2. The other noncash benefits on which the CPS collects data are energy assistance; housing assistance; school breakfasts and lunches; and Women, Infants, and Children (WIC). Prior to welfare reform in 1996, TANF was known as Aid to Families with Dependent Children (AFDC). SSI provides cash benefits to the disabled and to the elderly who lack other means of support.

Table 3.1 National trends in welfare participation rates
(percent of households receiving assistance)

Year		Some type of assistance	Some type of cash benefit	TANF or general assistance	SSI	Medicaid	Food stamps
1994	Native	15.3	7.7	4.5	3.9	13.3	8.4
	Immigrant	24.6	12.9	8.1	6.2	22.4	13.7
1995	Native	14.8	7.4	4.1	3.9	13.0	7.9
	Immigrant	24.7	12.7	7.8	6.2	22.6	12.7
1996	Native	15.1	7.3	3.8	4.2	13.3	7.8
	Immigrant	22.8	11.6	6.5	6.1	21.3	11.3
1997	Native	13.8	6.5	3.0	4.0	12.3	6.7
	Immigrant	21.0	10.0	5.0	5.8	19.4	10.0
1998	Native	13.2	5.8	2.5	3.8	11.9	5.8
	Immigrant	20.6	9.2	4.2	5.7	19.3	8.2
1999	Native	13.1	5.5	2.1	3.8	11.9	5.2
	Immigrant	20.0	8.5	3.5	5.6	18.9	7.3
2000	Native	13.5	5.1	1.8	3.7	12.4	5.1
	Immigrant	21.4	7.6	2.7	5.3	20.3	6.2
2001	Native	14.3	5.0	1.6	3.8	13.1	5.3
	Immigrant	23.4	7.2	2.6	5.1	22.5	6.3
2002	Native	14.9	4.9	1.6	3.6	13.6	5.5
	Immigrant	24.2	6.9	2.3	5.0	23.2	6.5

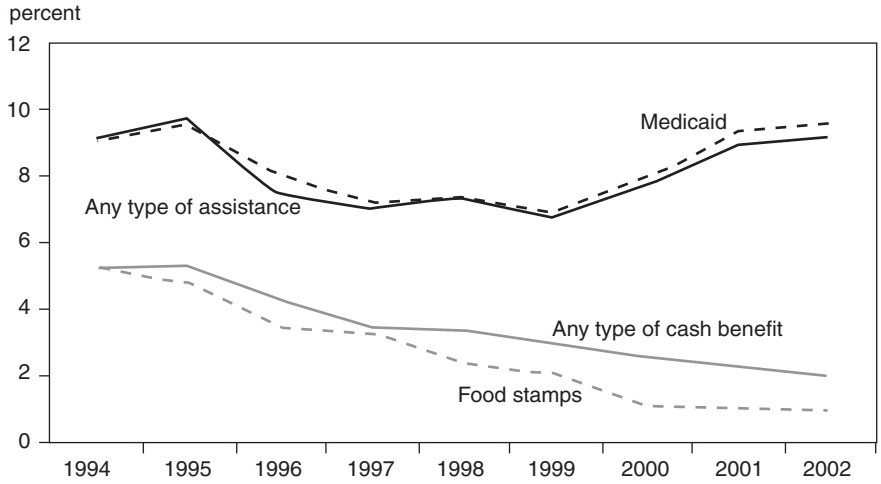
TANF = Temporary Assistance for Needy Families
SSI = Supplemental Security Income

Source: Current Population Survey, Annual Demographic Files, various years.

The nationwide immigrant-native differential in overall welfare use has fluctuated over time but does not show a consistent trend (see figure 3.1). In 1994, the share of households receiving any type of welfare was 24.6 percent for immigrants and 15.3 percent for natives, the same differential (9.3 percent) as in 2002. Between 1994 and 1999, both groups reduced their welfare use, natives by 2.2 percent (15.3 percent to 13.1 percent) and immigrants by 4.6 percent (24.6 percent to 20.0 percent). During the late 1990s, the immigrant-native differential in overall welfare use thus declined from 9.3 percent to 6.9 percent.

Initially, academic researchers attributed the 1990s-era decline in immigrants' welfare uptake to the reform of federal welfare programs undertaken by Congress in 1996 (Fix and Passel 2002; Borjas 2002). The reform mandated being employed as a precondition to receive benefits, limited lifetime use of certain benefits, gave states more discretion over program design, and excluded noncitizens from access to many benefits. Congress replaced state entitlements to open-ended federal funds with block grants, resulting in considerable state autonomy over individual eligibility criteria. States may decide whether or not to use their federal block grants to provide TANF, Medicaid, and other benefits to legal immigrants

Figure 3.1 Nationwide difference in immigrant and native welfare-participation rates, 1994–2002



Note: Difference is percent of immigrant households receiving assistance less the percent of native households receiving assistance.

Source: Current Population Survey, Annual Demographic Files, various years.

who arrived before 1996 (see table 2.2). They may not use federal block grants to provide these benefits to legal noncitizen immigrants who arrived after 1996, but may use other state funds to create substitute programs.[3] States now vary considerably in the benefits they offer to immigrants (Zimmerman and Tumlin 1999) (see figure 3.2).

After five years of residence, immigrants may apply for citizenship, which guarantees access to public benefits for which they meet standard eligibility criteria. For new immigrants, this requirement in effect mandates a minimum five-year waiting period for access to most benefits. Denying noncitizens access to benefits thus raises the incentives to naturalize. Borjas (2002) finds that naturalization rates among immigrants have risen sharply since welfare reform, especially in California where naturalization offers relatively large gains in terms of access to public assistance.

The late 1990s were a difficult period in which to evaluate the effects of welfare reform. The United States had been enjoying a sustained economic expansion for several years. If the boom helped low-income workers more than other workers, immigrants may have enjoyed relatively large income gains, causing them to leave welfare rolls in relatively large numbers. The

3. Some states, including California and Texas, have chosen to provide some health services to illegal immigrants. Their motivation appears to be that it is more cost-effective to do so than for these individuals to use emergency medical services. See Clay Robison, "Senate approves care for illegal immigrants," *Houston Chronicle*, May 5, 2003, A19.

Figure 3.2 Availability of welfare benefits to immigrants by state, 1996–present

Public assistance availability to immigrants	Generosity of public assistance to all citizens: 1	2	3	4
4	Illinois	Missouri Nebraska	California Maine Maryland Massachusetts Rhode Island	Washington
3	Florida	Oregon	Connecticut Minnesota New Jersey New York Pennsylvania Wisconsin	Hawaii
2	Delaware District of Columbia Kentucky Montana Nevada North Carolina Tennessee Virginia Wyoming	Alaska Arizona Colorado Georgia Iowa Kansas New Mexico North Dakota Utah	Michigan	New Hampshire
1	Alabama Arkansas Idaho Louisiana Mississippi Ohio Texas West Virginia	Indiana Oklahoma South Carolina South Dakota		

Note: Higher numbers indicate greater generosity of benefits to all citizens and greater availability of benefits to noncitizens.

Source: Zimmerman and Tumlin (1999).

early 2000s, which brought a recession and slow economic recovery, allow us to examine welfare use during a period of slow economic growth. From 1999 to 2002, use of social assistance increased by 4.2 percent for immigrants and 2.7 percent for natives. The larger increase in welfare use by immigrants erased the effects of the late 1990s and left the immigrant-native differential in overall welfare use in 2002 identical to that in 1994.

Does this pattern mean that welfare reform has not in fact affected the frequency with which immigrant households use social assistance? Though the immigrant-native differential in overall welfare use has not changed over time, the composition of benefits received by immigrants

and natives has changed. In 1994, the share of households receiving some type of cash benefit (general assistance, AFDC, or SSI) was 5.2 percent greater among immigrants than among natives (see table 3.1 and figure 3.1). By 2002, this differential had fallen to 2.0 percent. Similarly, the differential between immigrant and native use of food stamps declined from 5.3 percent to 1.0 percent between 1994 and 2002. Medicaid is the only major category in which the immigrant-native welfare differential did not fall. (It actually increased, from 9.1 percent to 9.6 percent.) The share of immigrant households using all types of social assistance except Medicaid has declined, both in absolute terms and relative to natives. This finding suggests that welfare reform has had the intended effect of limiting immigrants' access to many types of public benefits. What appears to explain immigrants' continued access to Medicaid is that US-born children are eligible regardless of the citizenship of their parents. Many immigrant-headed households may have retained their access to Medicaid by virtue of having children who are US citizens.[4]

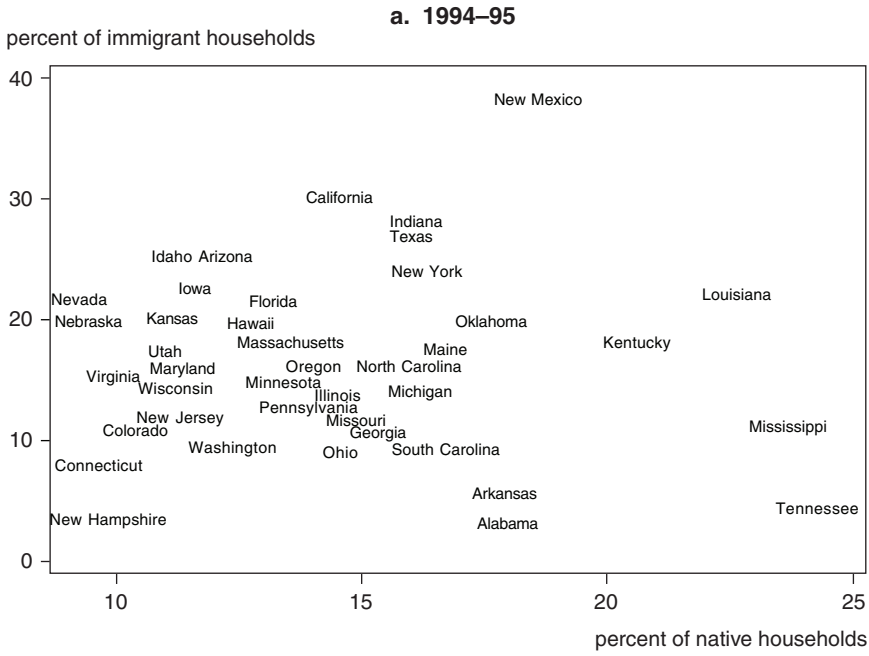
That many immigrant families have lost access to cash benefits but not to health benefits may reflect variation in the cost that voters ascribe to different types of public assistance. Native voters may be more willing to support immigrants' access to healthcare than to provide unconstrained cash payments to immigrants, especially when that healthcare is provided to children (who as US citizens may be the only members of many immigrant households eligible to use Medicaid).

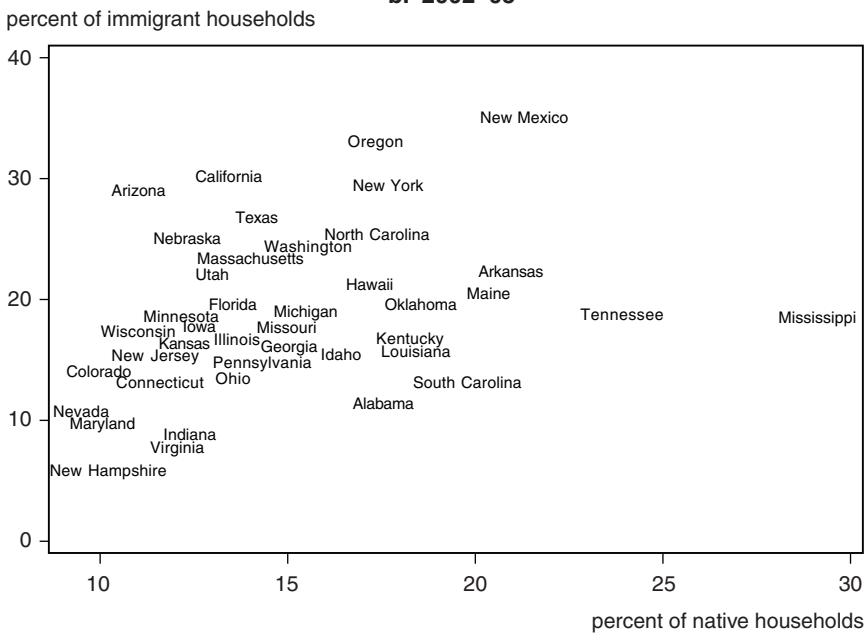
Variation in Welfare Use by State

As we have seen, welfare reform granted the states discretion in setting eligibility requirements for noncitizens and in allocating funds for social assistance. Even before welfare reform, however, states varied in the generosity of the public benefits they offered. In the mid-1990s, the share of households receiving some type of public assistance ranged among natives from 4 percent in Nevada to 24 percent in Tennessee and among immigrants from 3 percent in Alabama to 37 percent in New Mexico (see figure 3.3a). After welfare reform, states also varied in the extent to which they granted noncitizens access to entitlement programs (see figure 3.3b). A recent study by the Urban Institute shows that the states that offer more expansive benefits also tend to make benefits more available to noncitizens (Zimmerman and Tumlin 1999). States situated in the upper-right corner of figure 3.2 (such as California, Massachusetts, New Jersey, and New York) offer relatively generous benefits and high availability to noncitizens; states

4. See Leighton Ku, Shawn Fremstad, and Mathew Broaddus, "Noncitizens' Use of Public Benefits Has Declined since 1996: Recent Report Paints Misleading Picture of Impact of Eligibility Restrictions on Immigrant Families," Center for Budget and Policy Priorities, www.cbpp.org/4-14-03wel.htm).

Figure 3.3 Share of native and immigrant households receiving public assistance





in the lower-left corner (such as Arizona, Colorado, Georgia, Nevada, North Carolina, and Texas) provide relatively stingy benefits and low availability to noncitizens. Few states are characterized by low generosity with high availability to noncitizens (upper-left corner) or by high generosity with low availability to noncitizens (lower-right corner).

Unsurprisingly, immigrant uptake of welfare is higher in the more generous states. Table 3.2 shows usage of social assistance by immigrant and native households in more and less generous states. (More generous states are defined as those that offer both generous benefits overall and high availability to noncitizens.) In 2002, the differential in immigrant welfare use between more-generous and less-generous states was 4.8 percent for any type of social assistance (25.5 percent to 20.7 percent), 4.9 percent for cash benefits (8.3 percent to 3.4 percent), and 5.3 percent for Medicaid (24.7 percent to 19.4 percent). Each of these differentials in welfare use is larger than the corresponding differential for native households.

Benefit programs are means-tested; thus the more low-income immigrants reside in a state, the more households will be eligible to receive welfare. Household income depends heavily on the education of the household head. Figure 3.4 shows a strong negative relationship between the average income of immigrant household heads in a given state and the fraction of those households whose head has less than a high-school education. Controlling for other observable characteristics, the difference in the likelihood that a household receives cash welfare benefits is 8 (4) percent between households headed by an immigrant with less than a high-school education and those headed by a college-educated (high-school-educated) immigrant.[5]

The interaction between state welfare policies and the size and characteristics of the immigrant population determines a state's total immigrant welfare usage. To gauge the potential fiscal burden represented by immigrant uptake of social assistance, figure 3.5 plots the ratio of immigrant households in a state receiving some type of welfare benefit to the number of native households. This ratio produces a crude metric for the number of immigrant households that each native household must support. In 2002–03 there were over 20 native households for each immigrant household on welfare in Texas, Florida, Nevada, and New Jersey, but 10 or fewer native households for each immigrant household on welfare in California and New York. All of these states have large immigrant populations. What distinguishes California and New York is that these states have large low-skilled immigrant populations and generous welfare policies. Native

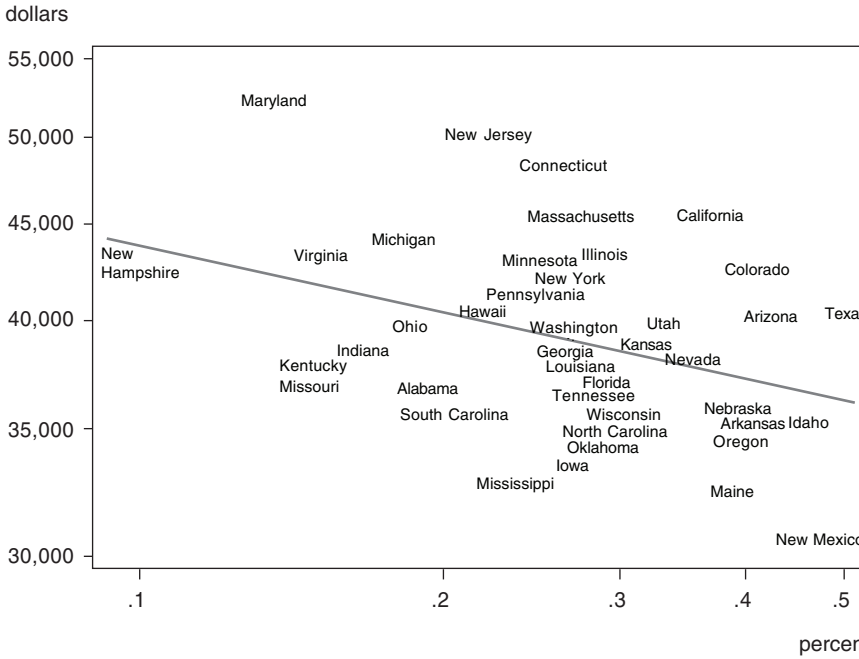
5. These estimates are based on an ordinary least squares regression in which the dependent variable is a 0–1 indicator for whether an immigrant household receives some type of cash welfare benefit (general assistance, SSI) and the independent variables are the age, age squared, years of education, marital status, and year of entry into the United States of the household head; the size of the household; and state dummy variables. Data are from the 2000 United States Census of Population and Housing 5% Public Use Microsample.

Table 3.2 Native and immigrant welfare participation in more and less generous states, 1994–2002

Year	Natives		Immigrants	
	Less generous states	More generous states	Less generous states	More generous states
Welfare participation rates (percent of households receiving some type of assistance)				
1994	16.7	13.9	22.8	25.2
1995	15.8	13.7	22.9	25.2
1996	16.2	13.9	19.3	24.0
1997	14.7	12.9	17.1	22.4
1998	13.9	12.6	16.9	21.9
1999	13.6	12.6	15.5	21.5
2000	14.0	12.9	15.4	23.7
2001	15.2	13.4	18.5	25.3
2002	16.0	13.7	20.7	25.5
Cash program participation rates (percent of households receiving cash assistance)				
1994	7.7	7.6	8.2	14.3
1995	7.2	7.5	8.2	14.0
1996	7.0	7.6	7.4	13.1
1997	6.6	6.4	6.1	11.3
1998	5.7	6.0	5.6	10.5
1999	5.4	5.6	4.7	9.9
2000	5.1	5.1	3.4	9.1
2001	5.1	4.9	3.5	8.6
2002	4.9	4.9	3.4	8.3
Medicaid participation rates (percent of households receiving Medicaid)				
1994	14.1	12.4	18.6	23.6
1995	13.5	12.4	19.5	23.6
1996	14.0	12.6	17.2	22.7
1997	12.8	11.8	15.2	20.9
1998	12.2	11.6	15.4	20.7
1999	12.2	11.7	13.8	20.7
2000	12.5	12.2	14.0	22.6
2001	13.7	12.6	17.3	24.5
2002	14.5	12.8	19.4	24.7
Food stamp participation rates (percent of households receiving food stamps)				
1994	9.6	7.3	14.2	13.6
1995	8.6	7.1	13.1	12.6
1996	8.3	7.2	11.0	11.4
1997	7.3	6.0	9.2	10.3
1998	6.4	5.2	5.7	9.1
1999	5.8	4.6	6.2	7.7
2000	5.8	4.3	4.8	6.7
2001	6.2	4.3	5.3	6.7
2002	6.3	4.6	5.8	6.8

Source: Current Population Survey, Annual Demographic Files, various years.

Figure 3.4 Average immigrant household-head income and share of immigrant households headed by a high-school dropout, 2002–03



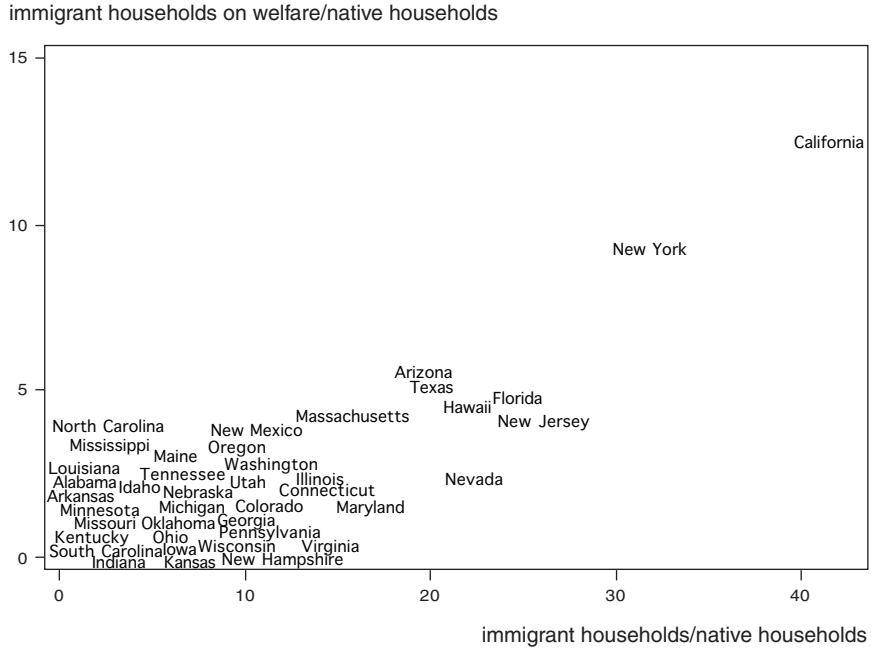
Note: The Y axis shows average earnings of immigrant household heads and the X axis shows percent of immigrant households headed by a high-school dropout.

taxpayers in California and New York are highly exposed to the fiscal costs associated with immigration; taxpayers in Texas, Florida, Nevada, and New Jersey appear likely to face a smaller burden. The next section will examine in more detail the costs of providing public services to immigrants.

The Costs and Benefits of Immigration

Immigration increases the incomes of US residents by allowing firms to utilize domestic resources more efficiently. These benefits, however, are not shared equally. Immigration redistributes income away from groups that compete with immigrants in the labor market. This redistribution is one source of political opposition to immigration. A second source of opposition arises from the costs that immigration imposes on native taxpayers. If immigrants receive more in government benefits than they pay in taxes, immigration imposes a net fiscal burden on US natives. To lower their fiscal burden, taxpayers may favor reducing immigration.

Figure 3.5 Immigrant households on welfare, 2002–03



Immigration generates benefits to a nation in the form of extra income to domestic factors of production, a phenomenon known to economists as *the immigration surplus*. By increasing the supply of labor in an economy, immigration raises the productivity of factors that are complementary to labor. For instance, a larger supply of low-skilled workers enables US capital, land, natural resources, and skilled labor to be exploited more efficiently. These gains in productivity generate income gains to owners of these factors. As we saw in chapter 2, an increase in the supply of labor also drives down wages for some US workers. To calculate the net change in national income associated with immigration, we can sum up the income changes associated with immigration for all domestic factors of production. Using a simple model of the US economy,[6] the immigration surplus takes a tractable form:

Immigration surplus as a percentage of GDP =
–0.5 * (percent change in wages due to immigration)
* (percent change in labor force due to immigration)
* (labor as a share of national income).

6. This model assumes one good and two factors of production. It is straightforward to extend this model to a more complicated environment.

Applying this formula to Borjas's data (2003) for the 1980–2000 period results in a crude calculation of the immigration surplus for the US economy in 2000:

$$0.5 * (3.2\%) * (11\%) * (0.70) = 0.12\%.$$

According to this formulation, immigration raises US GDP by slightly more than one-tenth of a percent, a very modest benefit.[7] The benefit would be larger if the wage change associated with immigration were larger, which would require either a higher level of immigration or a shift in the composition of immigrants toward individuals whose skills are in scarce supply.

In an economy free of distortions due to market failure or government intervention, there would be no costs associated with immigration. However, US tax and spending policies distort individual decisions about how much to work, how much to save, and how much to invest. Immigration of large numbers of low-skilled individuals may exacerbate these distortions by expanding the welfare system. If immigrants in the aggregate pay less in taxes than they receive in government benefits, immigration would generate a net fiscal burden on native taxpayers; that is, natives would in effect be making an income transfer to immigrants. Paying for this transfer would require some combination of tax increases on natives, reductions in government benefits to natives, and increased borrowing from future generations (by issuing government debt). The total impact of immigration on US residents is positive only if the immigration surplus exceeds the fiscal transfer to immigrants.

The National Research Council (NRC) recently conducted case studies of the fiscal impacts of immigration in New Jersey and California (Smith and Edmonston 1997). Both states have large immigrant populations, but their skill profiles and patterns of welfare usage differ. In 2002, the share of immigrant households headed by an individual without a high-school diploma was 37 percent in California but only 22 percent in New Jersey; the share of immigrant households receiving some type of social assistance was 30 percent in California but only 15 percent in New Jersey.

On the basis of federal, state, and local government expenditures and tax receipts, the NRC estimates that the short-run fiscal impact of immigration is negative in both New Jersey and California.[8] In New Jersey,

7. This estimate of the immigration surplus ignores many factors and should be treated with caution. More sophisticated estimates of the immigration surplus allow for labor of different skill types and varying effects of immigration on wages (see Borjas 1999b). Dynamic effects of immigration, such as increased innovation due to an inflow of new ideas or highly-skilled workers from abroad, are very hard to gauge. If they are important, static estimates of the immigration surplus will tend to understate immigration's true economic impact.

8. The study included all federal, state, and local government services and sources of tax revenue for which it was feasible to collect data. See Smith and Edmonston (1997) for details.

using data for 1989–90, immigrant households received an average net fiscal transfer from natives of $1,484, or 2 percent of average immigrant household income in the state.[9] This transfer amounted to an average net fiscal burden of $232 per native household, or 0.4 percent of average native household income. In California, using data for 1994–95, immigrant households received an average net fiscal transfer of $3,463, or 9 percent of average immigrant household income, which amounted to an average fiscal burden on native households of $1,178, or 2 percent of average native household income. In California, and to a lesser degree in New Jersey, the net fiscal transfers that native households make to immigrant households are large. The continuing increase in the immigrant population suggests that these transfers are likely to grow over time, raising the potential for political opposition to immigration from native taxpayers.

Natives' political response to making fiscal transfers to immigrants probably depends on the nature of the services that these transfers support. If transfers are seen as investments in immigrants or their children, via education or preventive healthcare, they may not provoke much opposition. The NRC estimates that K–12 education's share of total state and local government expenditures on services to immigrant households was 37 percent in California and 66 percent in New Jersey. Education's higher share in New Jersey expenditures reflects the state's low provision of other types of services relative to California. If native voters tend to approve of government expenditures on education, estimates of total net transfers to immigrants may overstate the fiscal impact that native voters perceive.

The NRC finds that two factors explain net fiscal transfers to immigrants: (1) immigrant households have more children, and thus make greater use of public education, and (2) immigrant households earn less, leading to greater use of welfare programs and lower tax contributions. Native taxpayers in California, with its less-skilled immigrant population and high immigrant uptake of welfare, make relatively large fiscal transfers to immigrant households. This pattern suggests that the fiscal costs of immigration are borne unevenly: States with poorer immigrant populations and more generous policies are likely to shoulder a much larger share of the fiscal burden associated with immigration. Further magnifying the distributional consequences of immigration, California and certain other high-immigration states have progressive tax systems in which high-income taxpayers pay a disproportionate share of taxes. Thus higher-income taxpayers in high-immigration states are likely to pay much of the fiscal cost of immigration.

The NRC's estimated fiscal transfers associated with immigration occur entirely at the state and local levels, where immigration has a decidedly negative impact on public finances. At the federal level, immigrants make

9. All figures drawn from the NRC study are in 1996 dollars.

a positive net fiscal contribution. This is the case because national defense accounts for a large fraction of the federal benefits that immigrants receive. As a public good, the cost of national defense is unaffected by immigration. Adding taxpayers through immigration, however, lowers the effective amount the federal government must charge native taxpayers to cover defense outlays.

For the nation as a whole, the NRC estimates that immigration imposes a short-run burden on the average native household of $166 to $226, or 0.20 percent to 0.25 percent of GDP in 1995. Comparing the average of these two estimates to the immigration surplus of 0.12 percent of GDP, a back-of-the-envelope calculation suggests that in the short run immigration reduces the aggregate income of US residents by about 0.1 percent of GDP. Turning from a short-run to a long-run estimate of the fiscal cost of immigration can change the results dramatically.[10] Under any scenario, however, the long-run fiscal impact of immigration on state and local governments is negative. Thus, in both the short run and the long run, state and local governments (and the taxpayers who support them) pick up much of the fiscal tab associated with immigration.

The benefits and costs of immigration appear to be distributed quite unevenly. Capital owners, landowners, and employers appear to capture most of the benefits associated with immigration in the form of higher factor returns. Taxpayers in high-immigration states are likely to shoulder most of immigration's fiscal costs in the form of higher taxes that go to pay for net fiscal transfers to immigrant households. On net, the economic impact of immigration on the United States appears to be small. However, small net changes in national income can mask large changes in the distribution of income. It is these distributional consequences that are likely to shape individual opinions on immigration policy.

10. The NRC estimates that the average immigrant admitted in 1990 would produce a net fiscal contribution of $80,000 over the next 300 years (in present-discounted-value terms). Looking ahead 300 years requires very strong assumptions about the future economic environment. The average immigrant's annual net fiscal contribution is negative for the first 25 years after arriving in the United States. The long-run estimate rests on the assumption that the federal government will eventually raise taxes to bring the federal budget into balance. If this does not happen, the long-run fiscal contribution of the average immigrant will be negative. See Borjas (1999a) for a discussion.