It's the Economy... and Immigration — Stupid!

BY EDWIN S. RUBENSTEIN

With housing prices collapsing, unemployment at levels not seen in more than a quarter century, and consumer confidence falling off the charts, the economy displaced all other issues on Election Day 2008.

As recently as mid-summer the election seemed likely to turn on Iraq. Barack Obama saw his pledge to end the war as a winning issue with American voters. John McCain spotted an opening to frame the election as a referendum on his military experience.

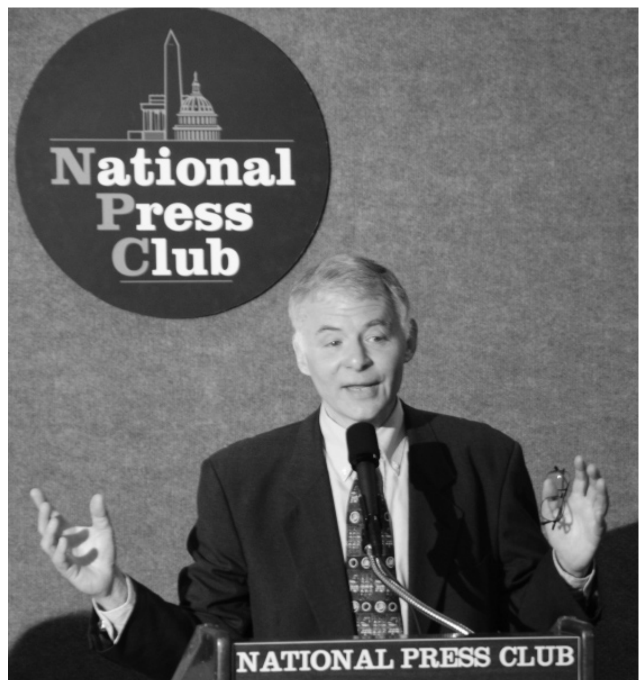
By November 4, Iraq was a distant second, of interest primarily because of the financial drain it represented on the Federal government's efforts to bail out Wall Street and salvage Main Street.

Immigration? It ranked 11th among election issues, according to the Zogby Poll.

But when the dust settles, and historians review the chain of events that produced the current crisis, mass immigration may well be seen as the major culprit. The financial debacle started with "unexpectedly" high default rates in sub-prime mortgages—loans designed to increase home ownership among immigrants, minorities, and other low-income borrowers.

Vast sums of sub-prime, zero-down-payment, mortgage money was funneled to low-income borrowers through the liberal-dominated quasi-governmental institutions Fannie Mae and Freddie Mac. Government quotas required banks to allocate an above-average fraction of sub-prime mortgages to minority groups.

The fraction of Hispanic and black mortgagees in the sub-prime category is two to three times the corresponding figure for whites. Not surprisingly, the four states with the largest concentrations of Hispanic immigrants—California, Florida, Arizona, and Nevada—accounted for 60 percent of all mortgage defaults in America in 2007.



Ed Rubenstein explains the fiscal impact of immigration on the federal government during a news conference in Washington, D.C., on April 8, 2008.

Defaults so far have been concentrated in subprime adjustable rate mortgages. They accounted for 6 percent of mortgages and 39 percent of defaults. Therefore, it is likely that most of the unexpectedly high default rate in 2007 was due to defaults by immigrants and U.S.-born minorities.

The ideas that congeal during the Bush-

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Obama transition about the causes of this crash will determine the course of public policy for decades to come. Right now, the consensus is that the free market failed. The truth, to which we blind ourselves in an orgy of political correctness, is that public policy in general—and immigration policy in particular—has failed the free market.

Immigration and the Bailout

In the fall of 2008, a little more than a year after the sub-prime mortgage problem first surfaced, the U.S. government made its most dramatic intervention into financial markets since the 1930s. In two tumultuous weeks the Federal Reserve and Treasury between them nationalized Fannie Mae and Freddie Mac; took over AIG, the world's largest insurance company; extended deposit insurance to $3.4 trillion in money market funds; and pledged $700 billion in government funds to buy up toxic sub-prime mortgages from private banks and financial institutions.

Even before the bailout and the stimulus programs promised by Bush and Obama are added to the accounts, next year's budget deficit was expected to top $500 billion. It could turn out to be two or three times that very large number.

Years of mass immigration have reduced the government's ability to fund these enormous sums. That's because immigrants are poorer, pay less tax, and are more likely to receive public benefits than natives. Federal finances are adversely impacted by immigrants—and this negative will increase as the foreign-born share of the population increases.

What is the fiscal impact of immigration? The answer consists of many parts. There are the direct costs of providing public benefits to immigrants and their children: Medicaid, food stamps, and welfare. Government spending on police and fire protection, prisons, infrastructure, national defense, and debt interest are all impacted by the number of foreign born residents.

Although immigrants pay taxes, their payments do not offset the total costs of services received. Indeed, when the reduction in native incomes (and taxes) caused by competing immigrant labor is taken into account the net revenue contribution could well be negative.

We start with the major federal programs available to foreign-born individuals and their children: Medicaid, welfare, and the Earned Income Tax Credit.

Medicaid

Medicaid is been the fastest-growing social program. In FY2008 more than one-third, or $202 billion, of the Department of Health and Human Services' budget was spent on the program. As recently as 1990, Medicaid was a $41-billion program, accounting for only 23 percent of DHHS outlays.

Many factors are responsible. The federal government's open-ended commitment to match state Medicaid spending has created a powerful incentive for states to expand Medicaid eligibility. Medical technology is fiendishly expensive. Private health insurance premiums have become impossibly expensive for many American workers, forcing many to seek Medicaid coverage. Finally, as the population ages and life spans increase, more Americans are relying on Medicaid to provide nursing home and other long-term care.

Immigration is another important, albeit rarely mentioned, driver. Most immigrants are poorly educated and lack the basic skills required for middle-class jobs—jobs that include health insurance coverage. Even full-time non-citizen workers are at a great disadvantage, with nearly half—49 percent—lacking employer-based health coverage compared to just 19 percent of full-time U.S.-born workers.

Not surprisingly, the share of immigrants lacking any health insurance coverage (33 percent) is significantly above that of U.S. natives (12 percent). Immigrants accounted for more than half—59 percent—of the growth in uninsured population during the 1992–2001 period.

Even after the 1996 welfare reforms, which curtailed welfare eligibility for new immigrants, immigrant households receive Medicaid at far greater rates than households headed by natives. In 2005, 14.8 percent of households headed by a native received Medicaid versus 24.2 percent of households headed by immigrants.

Welfare

The good news: most immigrants do not receive welfare. The bad news: they are far more likely to be on the dole than U.S. natives. In 2000—at the peak of the economic boom—8 percent of immigrant households received cash welfare benefits versus only 4.5 percent of households headed by native-born Americans.

Each year state governments spend an estimated $11 billion to $22 billion to provide welfare to immigrants.

Many people think that immigrants are not eligible for welfare. Technically, they are right: By law legal immigrants must pass a "public charge" test and have a U.S. sponsor or sponsors willing to pledge their income to support them. Before a potential immigrant receives an immigration visa, American consular officers are supposed to evaluate whether he or she is likely to become a public charge, and, if so, to deny the visa. Consular officers are supposed to take a variety of factors into account: the income of the individual sponsoring the immigrant; resources and skills of the applicant; and any special conditions (e.g., age and disability) that might affect the applicant's need for benefits.

The Immigration Reform and Immigrant Responsibility Act of 1996 raised the public charge threshold to 125 percent of the federally designated poverty level. Immigrants with annual income below that level are ineligible for welfare.

So why hasn't immigrant welfare use declined?

The devil is in the details. Refugees, asylees, and all amnestied illegal aliens are exempt from the public charge requirement. Congress has decided that the American people will serve as the sponsors for these immigrants and pick up the tab for their support.

The public charge threshold is set at only 25 percent above the poverty level. This is so low that it does not prevent immigrants from going on welfare; in fact, it almost guarantees it. Say a sponsor begins with an income of 200 percent of poverty level and is, therefore, not considered "legally poor." But after splitting that income with the immigrant, each will be at 100 percent of the poverty level. Where before we had one non-poor person, now we have two poor people. Since eligibility for some welfare programs kicks in before one's income drops to 125 percent of poverty level, immigrants can easily wind up on welfare (www.fairus.org/news/NewsPrint.cfm?ID=2379&c=55).

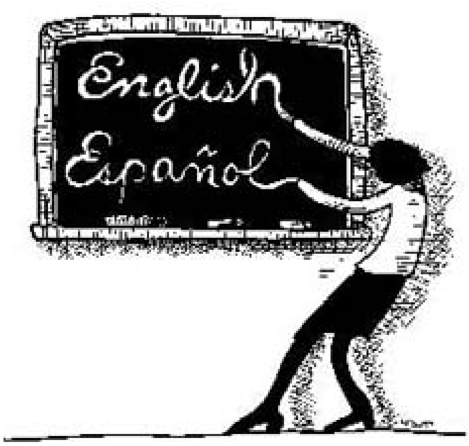
While immigrants who receive welfare can be deported for violating the conditions under which they were admitted, this provision is rarely enforced; in fact, only twelve people have been deported under this provision since 1980.

Furthermore, numerous forms of welfare are not considered under the public charge test, including food stamps, pre-natal care, nutrition programs, housing assistance, energy assistance, job training programs, child care services, free or reduced school lunch, public shelters, health clinics, Medicaid, and any cash welfare programs that are not the family's sole source of income.

Bottom line: Immigrants are effectively insulated from the public charge test unless they are completely dependent on welfare.

Earned Income Tax Credit

The Earned Income Tax Credit (EITC) is the nation's most expensive means-tested program for working families, with $36 billion distributed in 2006. EITC is a "refundable" tax credit. That means even a worker who pays no taxes or pays less than the amount of the credit receives a check from the IRS.



More than one in four of households headed by an immigrant received EITC in 2000, nearly twice the 13.2 percent eligibility of households headed by native born Americans. Because immigrant households are larger, their tax refund payments are larger. In 2000 their tax credit payments averaged $1,700 versus $1,450 for households headed by natives.

Illegal immigrants are eligible for EITC payments on behalf of their native-born children. But the IRS does little to verify the claim that such children actually exist or that they have lived with the worker for more than six months of the year, as required by law. Many immigrants claim nonexistent children, or claim children whom they've left behind with relatives.

Fraudulent EITC payments are no different than outright tax evasion: they shift the burden of taxation from dishonest to honest citizens. Treasury and the IRS are obligated to control this abuse.

Primary and Secondary Education

Nearly 50 million students are enrolled in U.S. public schools. About one in 20 is an immigrant. U.S.-born children of immigrants represent an even larger burden—14 percent of total enrollment. Thus at least 19 percent of all pre-K to12 public school enrollment is the result of immigration. [Urban Institute, "The New Demography of America's Schools: Immigration and the No Child Left Behind Act," PDF]

This means that nearly 10 million public school students are immigrants or the children of immigrants. This total includes an estimated 1.1 million illegal immigrant children, according to the Urban Institute. (In 1982 the Supreme Court ruled that illegal immigrant children are entitled to the same education benefits available to U.S. citizens.)

Public education is the most expensive program provided by state and local governments: $553 billion in 2007. Foreign-born students account for a disproportionate share of this outlay.

The surge of immigrant children has led to a steady increase in the number of students who speak a foreign language at home, or if they speak English at all, do so "with difficulty." The Department of Education reports that 19 percent of the U.S. school population does not speak English at home in 2001, up from 9 percent in 1979. (Department of Education, "The Condition of Education 2005" http://nces.ed.gov/pubsearch/pubsinfo.asp?pubid=2005094)

The federal government requires public schools to include ESL or bilingual education (BE) programs in their curriculum to accommodate the needs of the non-English-speaking students, regardless of their legal status. These classes are significantly more expensive than mainstream English classes. Added per-pupil costs for such classes are estimated by the Rand Corporation to range from

$500 to $1,600 (2007 dollars.)

To help school districts defray these costs, the federal government provides English-language acquisition grants. The funds are distributed according to a formula that takes into account the number of immigrant and ESL students in each state. The FY2007 budget authorizes $669 million of such grants, an amount that covers only a fraction of the added instructional costs. Local taxpayers cover most of the federal mandate.

Enrollments are projected by the U.S. Department of Education to reach 55 million by 2020 and 60 million by 2030. Immigration will account for 96 percent of the future increase in the school-age population over the next 50 years. [Statement of Mark Seavey, Assistant Director, National Legislative Commission, the American Legion, House Judiciary Committee, May 23, 2007. (www.aila.org/content/fileviewer.aspx?docid=23115&linkid=164770)]

Implication: over the next half-century-immigration will account for virtually the entire rise in public education enrollment and spending.

Immigrant Prison Population

As with our schools, America's criminal justice system is bulging with citizens of other countries. In 1980, federal, state, and local prisons and jails held fewer than 9,000 criminal aliens. But at the end of 2004, approximately 267,000 non-citizens were incarcerated in U.S. correctional facilities, as follows:

- 46,000 in federal prisons
- 74,000 in state prisons
- 147,000 in local jails

According to the Federal Bureau of Prisons, 30 percent of federal prisoners are not U.S. citizens. At a cost of $63 per inmate per day, taxpayers spend more than $3 million every day to house non-citizen inmates in our federal prisons. Most are thought to be illegal aliens. (http://transcripts.cnn.com/transcripts/0604/01/ldt.01.html)

Applying the $63/day cost to all non-citizen inmates yields a whopping $17 million per day incarceration charge. That translates to $6.2 billion annually.

It's money well spent. The Government Accountability Office (GAO) recently analyzed the rap sheets of more than 55,000 illegal aliens incarcerated in federal, state, and local facilities. Among GAO's findings: [Source: GAO, "Information on Certain Illegal Aliens Arrested in the United States," Letter to Congressman John N. Hostettler, May 9, 2005.]

- The average criminal alien was arrested for 13 prior offenses.
- 12 percent of these arrests were for murder, robbery, assault, and sexually related crimes.
- Only 21 percent were for immigration offenses; the rest were felonies.

Imprisoned members of the Mexican Mafia (La Eme) and Florencia 13 (F 13s) are among some of the estimated 267,000 criminal aliens in U.S. correctional facilities.

- 81 percent of these arrests occurred after 1990.

In a word, criminal aliens are not casual lawbreakers. Most are recidivists—career criminals. The economic burden they impose on victims, including loss of income and property, uncompensated hospital bills, and emotional pain and suffering, has been estimated at $1.6 million per property and assault crime offender. [Source: Anne Morrison Piehl and John J. DiLulio, "Does Prison Pay?" *Brookings Review*, Winter 1995]

The costs of incarcerating criminal aliens are trivial alongside the physical and emotional suffering these people impose on their victims.

The Bottom Line

There have been surprisingly few comprehensive studies of immigration's fiscal impact. The most extensive and authoritative analysis is still the National Research Council (NRC's) *The New Americans: Economic, Demographic and Fiscal Effects of Immigration* (1997) (http://www.nap.edu/openbook.php?isbn=0309063566)

The NRC staff analyzed federal, state, and local government expenditures on programs such as Medicaid, AFDC (now TANF), and SSI, as well as the cost of educating immigrants' foreign- and native-born children. NRC found that the average immigrant household received $24,507 (1996 dollars) in federal, state, and local spending. In 2007 dollars this comes to $32,380 per household.

Multiplying the number of immigrant households (14.4 million) by the average expenditure per household ($32,380) we arrive at $466.3 billion as the total public cost of providing for immigrants and their U.S.-born children. Add in the reduction in native tax payments caused by immigrant labor, and the total fiscal cost could easily top $700 billion.

Bottom line: Bailing out immigrants is as expensive as bailing out Wall Street. ■

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Steven A. Camarota, "Back Where We Started: An Examination of Trends in Immigrant Welfare Use Since Welfare Reform," (CIS, March 2003.)

The NRC's methodology undoubtedly understates immigration's fiscal burden. For example, K–12 education expenses are allocated according to the number of school age children in immigrant and native households, thereby ignoring the exceptional costs of providing English language instruction to children living in immigrant households. Similarly, incarceration costs are also assigned to each group based on their total population shares rather than their share of the prison population. Interest payments on federal, state, and local government debt are excluded.