

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 the day Barack Obama was elected President.

As recently as mid-summer the 2008 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 eleventh among election issues, according to the Zogby Poll.

But when the dust settles, and historians review the chain of events that produced the economic 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 were 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 subprime 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.

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 much of the unexpectedly high default rate in 2007 was due to defaults by immigrants and U.S.-born minorities.

The Community Reinvestment Act [of 1977] forced bankers to make subprime mortgage money available to borrowers who had little prospect of repaying. Bank regulators held banks accountable to CRA rules, leading to an erosion in credit standards.¹ Yet in the public's mind, excessive greed is the culprit. The Obama Administration apparently accepts this liberal consensus — namely, that the free market failed. The truth, to which they blind themselves in an orgy of political correctness, is that public policy in general — and immigration policy in particular — has failed the free market.

Immigration, Unemployment, and the Deficit

What a difference a year makes!

On February 11, 2009, Congress approved Barack Obama's \$787 billion stimulus package. The legislation, dubbed The American Recovery and Reinvestment Act, had been bitterly resisted by Republicans — none voted for the measure in the House and only three did in the Senate.

Conservative congressmen warned the bill would lead to ever larger deficits and government spending. The people agreed with them. But President Obama's economic advisors carried the day. To grease the legislative wheels they released their economic forecast a few weeks before Mr. Obama took office. Without the

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stimulus, they saw the unemployment rate — then 7.2 percent — rising above 8 percent in 2009 and peaking at 9 percent in 2010. With the stimulus they predicted unemployment would peak at 8 percent in late 2009 before trending downward.

We now know how wrong they were.

Unemployment breached 10 percent in 2009. The Administration’s latest economic forecast, released on February 11, 2010, projects unemployment will remain above 9 percent through 2011.

So many jobs have been lost that the country entered 2010 with fewer jobs than it had a decade earlier. *The obvious lesson: Washington is no better at creating jobs than it is at creating affordable health care, a sound dollar, or a border fence.*

brutal arithmetic runs like this: roughly 100,000 jobs per month must be created just to accommodate the growth in the U.S. labor force.

Most people regard labor force growth as a “natural phenomenon,” the excess of young entrants over older retirees, and therefore beyond the realm of public policy. Most people are wrong: *Immigration policy is increasing the number of job seekers faster than economic policy can create jobs.*

In 2008 1.1 million legal immigrants and 400,000 “temporary workers” were allowed to enter and take up residence.³ Most will receive work permits and look for jobs. This translates to as many as one hundred twenty-five thousand new immigrant job seekers per month, twenty-nine thousand per week, and forty-one hundred per day.

Once a year the Bureau of Labor Statistics releases data on immigrant employment trends. Its latest report, for calendar 2009, shows a significant rise in immigrant jobless — both in absolute numbers and as a share of the total: There were 2.3 million unemployed immigrants in 2009, or about 16 percent of all jobless. More importantly, the number of unemployed immigrants rose by 914,000 in 2009, accounting for 17 percent of the rise in unemployment that year. These are primarily legal immigrants. The illegal alien workforce shrank in 2008, returning home when their U.S. jobs disappeared.

The implication is clear: Had an immigration moratorium been in effect in 2009, as many as 914,000 fewer people would have been unemployed. That’s equal to the jobs allegedly saved or created by Obama’s first stimulus package.

And unlike Keynesian policy, immigration policy can actually reduce federal spending by eliminating the cost of processing several million visa applications and tracking visa holders.

It’s worth noting that in fiscal year 2009 the U.S. budget deficit was \$1.4 trillion. A year ago Obama’s budget projected a deficit of \$1.3 trillion for this year (FY2010.) That was based on the assumption that unemployment would not exceed 8 percent. The current budget projects a \$1.6 trillion deficit for FY2010.⁴ These latest deficit levels are almost twice as high as those in any year since the end of the World War II.

Liberal economists warn of worse to come: With more than a fifth of the work force expected to be unemployed or underem-

Unemployment Among Immigrants and Native born, 2008-09 annual averages				
	2008	2009	Increase 2008-09	% Increase 2008-09
Unemployment (1,000s)				
Total	8,924	14,265	5,341	59.8%
U.S. born	7,521	11,948	4,427	58.9%
Foreign born	1,403	2,317	914	65.1%
Percent of total	15.7%	16.2%	0.5%	3.3%
Unemployment rate (%)				
Total	5.8	9.3	3.5% pts.	60.0%
U.S. born	5.8	9.2	3.4% pts.	58.9%
Foreign born	5.8	9.7	3.9% pts.	66.1%

SOURCE: BLS, “Foreign-born Workers: Labor Force Characteristics in 2009,” March 19, 2010. Table 1. http://www.bls.gov/news.release/archives/forbrn_03192010.pdf

So what is Plan B? A second Keynesian stimulus package. Some are suggesting another \$400 billion be spent on federal job programs.²

Einstein defined insanity as doing the same thing over and over while expecting different results. This is insane.

Too many job seekers; not enough jobs. This, in a nutshell, is the unemployment crisis facing the United States economy. So far policymakers have focused on the “not enough jobs” part, with dismal results.

While the flip side of the unemployment equation — too many job seekers — is never discussed, it may offer federal policymakers the best way out. The

ployed in 2010 there is an economic and a moral imperative to take action.” The severity of the current crisis means that “Today’s high deficits will have to go even higher to help address unemployment.”⁵

Reality check: 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. At the federal level there are the costs of providing benefits to immigrants and their children: Medicaid, welfare, and the Earned Income Tax Credit. At the state and local level, public education is the most expensive expenditure item. Spending for police and fire protection, prisons, infrastructure, and debt interest are also impacted by 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 has 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 workers⁶.

Not surprisingly, the share of immigrants lacking any health insurance coverage (33 percent) is significantly above that of U.S. natives (12 percent).⁷ Immigrants accounted for more than half—59 percent—of the growth in the 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.⁸

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.⁹

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

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 to 12 public school enrollment is the result of immigration.¹⁰

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 did not speak English at home in 2001, up from 9 percent in 1979.¹¹

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.¹²

Implication: over the next half century immigration will account for virtually the entire rise in public

education enrollment and spending.

The Non-citizen 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 fiscal year 2003 approximately 267,000 non-citizens were incarcerated in U.S. correctional facilities, as follows:¹³

46,000 in federal prisons

74,000 in state prisons

147,000 in local jails

267,000 Total

It costs about \$63 per day to feed, house, and supervise non-citizen inmates in our federal prisons.¹⁴

Applying the \$63 to all 267,000 non-citizen inmates yields \$16.8 million (\$63 x 267,000) per day incarceration charge. That translates to a whopping \$6.1 billion (365 x \$16.8 million) spent annually to keep non-citizen inmates behind bars.

It's money well spent. GAO recently analyzed the rap sheets of more than 55,000 illegal aliens incarcerated in federal, state, and local facilities. Among GAO's findings:¹⁵

- The average criminal alien was arrested for 13 prior offenses.
- 12 percent were for murder, robbery, assault, and sexually related crimes.
- Only 21 percent were immigration offenses; the rest were felonies.
- 81 percent of their 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.¹⁶

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's *The New Americans: Economic, Demographic and Fiscal Effects of Immigration pub-*

lished in 1997.

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.¹⁷ In 2009 dollars this comes to \$33,504 per household.

Multiplying the number of immigrant households (14.4 million) by the average expenditure per household (\$33,504) we arrive at \$482.5 billion as the total public cost of providing for immigrants and their U.S.-born children.¹⁸ Add in the reduction in native tax payments caused by immigrant labor and the fiscal cost of immigration could easily top \$700 billion.

Implication: Bailing out immigrants is as expensive as bailing out Wall Street.

While costs associated with the financial bailout will eventually decline, no such scenario is in sight for immigration. The quality of foreign-born entrants has deteriorated for decades. In 1960, for example, new immigrants were generally better educated than natives; they also earned more, and were less likely to be poor. By the end of the 20th century, new arrivals had two fewer years of education and earned one-third less than natives.¹⁹

The trend implies an ever-increasing imbalance between the government benefits received and the taxes paid by immigrants. In the long run, deficit reduction will require immigration reform. ■

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