Middle-Class Dreamers Confront Immigration Nightmare

BY EDWIN S. RUBENSTEIN

If there's one issue on which both the left and right agree, it is the crisis of declining mobility. In the quintessential American Dream the gap between rich and poor diminishes over time, and children invariably attain a better standard of living than their parents. The Dream: a person, no matter his or her background, can achieve a middle-class lifestyle.

The Reality: we are becoming a country where the rich live in gated communities, send their children to expensive schools, and have access to first-rate medical care while the rest of us lose ground.

The disparity between haves and have-nots is greater in the U.S. than in any advanced country in the world.

Researchers at the International Labor Organization (ILO) have measured national income inequality using a statistic called the Gini coefficient. Gini coefficients can range from 0 (perfect equality in income among all households) to 100 (extreme inequality in which one household receives the entire national income while the rest get nothing.)

Like golf, low Gini scores win.

A recent ILO report[1] puts the U.S. Gini coefficient at 47.7 in 2011, or almost half way toward the theoretical maximum of 100. By comparison, inequality in the other 25 developed countries ranges from 20 to 35.

What's worse, inequality is rising faster here than anyplace else. The U.S. Gini coefficient rose even during the stock market collapse of 2008 to 2009. Market meltdowns like that usually have a leveling effect on inequality.

So it seems as if American exceptionalism includes the ability of our wealthy to garner a disproportionate share of national income.

Liberals blame the greed and avarice of the richest 1 percent — aided and abetted by financial de-regulation. Conservatives, to the extent that they fret over inequality, focus on the shocking lack of skills among large swaths of the bottom 99 percent — the result of a moribund public education system controlled by teachers unions.

Both sides believe income inequality will increase unless their policy agendas are put in place.

Both sides ignore U.S. economic history — and the role of immigration.

Jay Gatsby notwithstanding, the Roaring Twenties marked the start of a forty-year period during which ordinary workers got richer while the rich got relatively poorer. After an early recession unemployment dropped below 5 percent and stayed below that level for most of the decade. Americans found themselves sharing broadly similar lifestyles in a way not seen since before the Civil War.

Economic historians Claudia Goldin and Robert Margo call this period of declining income disparities the *"Great Compression."*[2]

What happened? Economists Ian Dew-Becker and Robert Gordon[3] weigh in on the role played by restrictive immigration policies:

> To be convincing, a theory must fit the facts, and the basic facts to be explained about income equality are not one but two, that is, not only why inequality rose after the mid-1970s but why it declined from 1929 to the mid-1970s. Three events fit neatly into this U-shaped pattern, all of which influence the effective labor supply curve and the bargaining power of labor: (1) the rise and fall of unionization, (2) the decline and recovery of immigration, and (3) the decline and recovery

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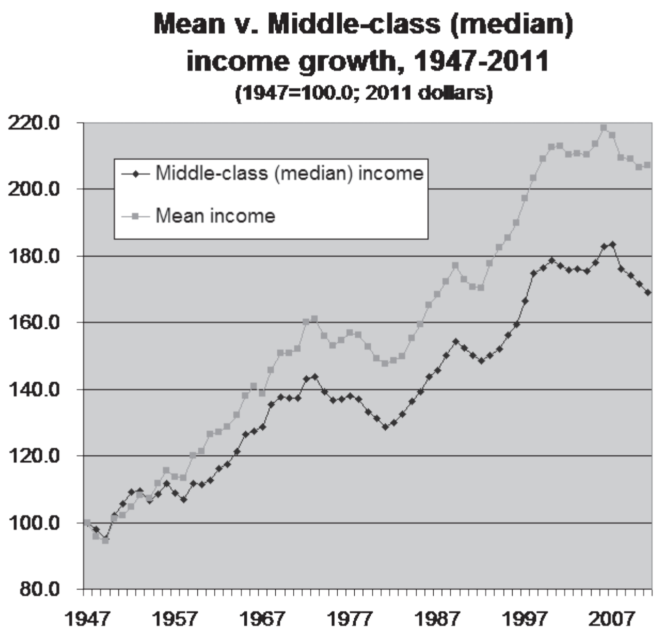
> in the importance of international trade and the share of imports….
>
> Partly as a result of restrictive legislation in the 1920s, and also the Great Depression and World War II, the share of immigration per year in the total population declined from 1.3 percent in 1914 to 0.02 percent in 1933, remained very low until a gradual recovery began in the late 1960s, reaching 0.48 percent (legal and illegal) in 2002. Competition for unskilled labor not only arrives in the form of immigration but also in the form of imports, and the decline of the import share from the 1920s to the 1950s and its subsequent recovery is a basic fact of the national accounts.[4]

From the end of World War II until the late 1960s the rich-poor divide was remarkably stable, even narrowing over long stretches. The de facto immigration moratorium in place from the mid-1920s to the mid-1960s forced the nation to draw on unused and underemployed minorities to meet its internal labor force needs.

The Great Compression lived.

Things started to come apart around 1970, as can be seen by comparing the trend in mean and middle-class (median) income growth:



Mean income is the average income of all persons, calculated by dividing total income by the total population. Median income is the income of the person at the very middle of the income distribution. Half of all individuals have incomes above it; half have income below it.

Median income is middle-class income. It is not influenced by the extremes of poverty or the egregiously high incomes received by the super rich. By contrast, mean income reflects income of all families, from the very poor to, increasingly, the super rich.

If the income of all persons grew at the same rate, mean and median per capita income would grow at the same rate. If, however, income of the rich were to grow faster than those in the bottom half, mean income would grow faster than the median.

The graphic shows the growth of mean and median per capita income from base year 1947 to 2011. Over this period mean income rose 107.1 percent (from 100.0 to 207.1) while median (middle-class) income rose by 68.0 percent (from 100.0 to 168.0)

Clearly the gap between rich and middle-class was wider in 2011 than in the years immediately after World War II.

Drilling down to sub-periods, we can discern the role played by immigration.

In 1947 mean income was 17.0 percent above median income. The gap actually narrowed to 9.4 percent in the late fifties, and remained in the 10 percent to 12 percent range in the 1960's.

This, of course, was a time of relatively low immigration.

Around 1970 mean income pulled noticeably ahead of middle-class income. The divergence is painfully evident in the graphic, especially — and we think, not coincidentally — in the years following the 1986 illegal alien amnesty. In 1986 mean income was 18.6 percent above median income. Ten years later it was 27 percent higher.

By 2011, twenty-five years after the Reagan amnesty, mean income was a record 32.9 percent above middle-class income.

Immigration and the Dream

Economics 101 teaches us that when supply of something goes up, its price goes down. In economists' jargon, prices fall until the market is "cleared," — i.e., until demand rises enough to soak up for the added supply. This market clearing process works for oil, foodstuffs, autos, housing…and workers.

Harvard Professor George Borjas' research indicates that during recent decades, on average, each 10 percent increase in the number of immigrant workers in a particular field reduces the wage of native-born men in the group by about 3.7 percent.[5] His economic model finds that immigrants who entered the country from 1990 to 2010 reduced the average annual earnings of U.S.-born workers by $1,396.

In percentage terms, the least educated workers suffer more than twice the wage loss of the highly educated.

In 2012 foreign-born workers accounted for 16.1 percent of the U.S. labor force, according to the Census Bureau.[6] This is below the 20.5 percent recorded in 1910, at the peak of the "Great Wave."[7] But there's a catch: During the earlier wave immigrants had pretty much the same education and skill levels as natives.

Native workers are less likely to be harmed by immigration if the immigrants resemble the natives, not physically or ethnically, but with the same mix of skills and educational background.

At the beginning of the twentieth century 9 out of 10 American adults lacked a high school diploma, as did vast majority of immigrants. Those Italians, Russians, and Greeks increased U.S. population but did not change the essential character of the labor market.

This time it's different. Compared to the workforce of today, the skill mix of immigrants is lopsided. About the same proportion have college degrees, but many more — especially those who crossed the southern border illegally — do not.

In a recent fifteen-year period immigration increased the number of high school dropouts by 21 percent and the number of people with a high school degree or better by only 4 percent. During that time the wages of dropouts fell by 11 percent relative to those with more schooling.[8]

Keep in mind that these dropouts are adults, many with families, many with years of on the job experience, who did not graduate high school. In an earlier time they would have earned good money working in a factory or on a farm. Many would attain the American Dream of home ownership. Their children would surpass their standard of living.

Minorities are more likely to lack a high school degree than whites. No matter what their education level is, however, minorities appear more vulnerable to immigration than whites:

> The employment rate of black men, and particularly of low-skill black men, fell precipitously from 1960 to 2000. At the same time, the incarceration rate of black men rose markedly.… Using data drawn from the 1960-2000 U.S. Censuses, we find a strong correlation between immigration, black wages, black employment rates, and black incarceration rates. As immigrants disproportionately increased the supply of workers in a particular skill group, the wage of black workers in that group fell, the employment rate declined, and the incarceration rate rose. Our analysis suggests that a 10-percent immigrant-induced increase in the supply of a particular skill group reduced the black wage by 4.0 percent, lowered the employment rate of black men by 3.5 percentage points, and increased the incarceration rate of blacks by almost a full percentage point. George J. Borjas, et al., *Immigration and African-American Employment Opportunities,* NBER, 2007.[9]

Minorities and unskilled whites are the biggest losers from mass immigration.

The Dream lives — for immigrants and their employers

The presence of immigrant workers (legal and illegal) increases U.S. GDP by an estimated 11 percent, or $1.6 trillion, per year. Immigrants themselves receive the vast bulk of this gain from wages and benefits paid by their U.S. employers.

The remainder, which economists call the "immigration surplus," accrues to the native-born population that employs immigrants, a group composed mainly of business owners and other wealthy individuals.

Here is a list of America's 10 leading immigration "source" countries in order of importance:

Top 10 Immigrant-sending Countries, 2010

	GDP per capita
Mexico	$14,700
China	$8,000
India	$3,900
The Philippines	$4,500
Vietnam	$3,600
El Salvador	$7,400
Cuba	$10,200
South Korea	$31,400
Dominican Republic	$9,400
Guatemala	$5,200
U.S.	$49,500

Source: Center for Immigration Studies (countries); CIA, *The World Factbook* (per cap. GDP)

These ten countries are the source of well over half of our foreign-born population. Mexico alone accounts for nearly 30 percent. Except for South Korea, they are all much poorer than the U.S.

In most source countries public education is of poor quality, and ends at ages below what is considered high school age in the U.S. Public sector corruption is a pervasive fact of life.

All this makes it hard for the average worker to attain a standard of living that, by U.S. standards, would be considered lower middle-class.

In a paper published earlier this year, Professor Borjas estimates immigrants receive about 10.5 percent of U.S. GDP, or about $1.575 trillion. This works out to an average of $39,000 per each of the 40 million immigrants currently in the country.

While recent immigrants generally earn less than those here for longer periods, they still receive far more here than they would have in their home countries. A middle-class lifestyle is open to them and, via remittances, to many of the family members they left behind.

For native-born Americans, the net economic gain from immigration is estimated to be a mere $35 billion, or 0.24 percent of GDP.[10]

This fairly trivial gain is the result an enormous redistribution of wealth, away from workers who compete with immigrants and toward employers and other users of immigrant services:

Loss to native-born workers: $402 billion
(2.68 percent of GDP)

Gain to native employers: $437 billion
(2.91 percent of GDP)

Net gain to natives: $35 billion
(0.24 percent of GDP)

Native employers gain $437 billion of added profit by hiring low-wage immigrants. Large corporations are the biggest winners. (Bill Gates and Mark Zuckerberg are enthusiastic proponents of comprehensive immigration reform.)

Smaller local companies also gain from immigration. Landscapers, for example, can cut labor costs and pocket more profit per job by hiring low wage immigrants. Part of the lower costs may be passed through to customers, enabling more people to afford their services and allowing their business to grow. Several national professional organizations push for higher rates of legal immigration on behalf of landscapers.

A similar pro-immigration logic prevails in restaurants, hotels, software, and other sectors of the U.S. economy.

Gainers also include stockholders of publicly traded companies whose profits rise as immigrants displace Americans on company payrolls. With tens of millions of Americans invested in the market through their retirement accounts, this is potentially a large pro-immigration constituency.

But for workers in middle-class occupations — teachers, construction workers, health care professionals, government workers, etc. — the stock market gains attributable to immigration are likely dwarfed by the wage losses.

The wage loss suffered by native-born workers from immigration is estimated to be $437 billion a year.

Only the truly wealthy native-born, who derive the bulk of their income from capital assets rather than wages, gain from immigration.

Even these lucky few should think twice. If history is any guide, new legal immigrants will receive more in federal benefits than they pay in taxes. Obamacare will only add to the imbalance.

How long can it be before higher federal taxes rob even wealthy Americans of their immigration gains?

Education, education, education

Want to live the American Dream? No problem. Just stay in school, graduate, go to college or vocational school, acquire marketable skills, and stay focused on your career.

The Dream is alive and well for individuals who play by the rules.

Most Americans still believe this story line.

Reality check: the quality of public education is so dismal that native-born high school and college graduates are often unemployable.

The U.S. spends tons of money on education, but a disproportionate share of it goes to immigrants and their U.S.-born children. The average low-income immigrant household receives an estimated $7,737 each year in K-12 education services.[11] That's more than twice the combined annual cost of Medicaid, welfare, and other means-tested benefits for such households.

In many states[12] the costs of educating immigrants has depleted funds available for native-born students:

- *California* spends about $8.5 billion, or nearly 15 percent of total K-12 expenditures, educating children of illegal immigrants. This amount could pay the salaries of 31,000 teachers for three years and finance the purchase of 2.8 million computers — enough for about half the state's students.

- *Texas* spends about $4.3 billion educating children of illegal aliens, or about 12 percent of its education spending. This would more than cover the $2.5 billion shortfall identified by the Texas chapter of Federation for Teachers for textbooks and teachers pensions.

- In *Arizona*, the $822 million spent educating illegal aliens and their U.S.-born children is equivalent to 10.5 percent of total statewide K-12 spending. The state, which recently ranked dead last in per pupil spending, could close half the gap with the national average if relieved of this burden.

Teaching English to students with limited English skills explains much of the extraordinary costs associated with immigrant children. A GAO report finds that English as a Second Language (ESL) programs can be more than double normal per pupil instructional costs.

This might be tolerable if ESL programs worked — but they don't. The accumulated research of the past forty years reveals almost no justification for teaching children in their native languages to help them learn English or other subjects. California's experience is typical: in 1997 only 6.7 percent of the state's 1.4 million bilingual education students were classified as English proficient when they completed the ESL program. [Jessica Trundle, "The History of Bilingual Education in the United States."][13]

The ESL mandate has forced school districts to reduce the number of teachers assigned to other subject areas — to the detriment of native-born students.

Those native-born students fortunate enough to graduate high school face yet another barrier: limited college tuition subsidies. Obama's Executive Order in June 2012, circumventing congressional passage of the DREAM Act, forces state colleges and universities to charge in-state tuition for children of illegal aliens. This is an unfunded federal mandate, meaning that less financial aid will likely be available for native-born students.

It is conservatively estimated[14] that: (1) about 1 million illegal immigrants will eventually qualify for the benefit, and (2) each will receive a tuition subsidy averaging $6,000 per year. Taxpayers will thus cough up an added $6 billion per year for the tuition subsidy — money that could have defrayed college costs for children of U.S. citizens.

Meanwhile, the ongoing influx of foreign-born college grads has reduced salaries of newly minted American BAs by nearly 5 percent.[15] At one time college tuition was a fraction of the starting salary a college grad could expect upon graduation; today it is a multiple of that at many institutions.

The American Dream used to mean paying off the mortgage. Today it's paying off the student loan. ■

Endnotes

1. http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_214476.pdf
2. http://www.vdare.com/rubenstein/070129_nd.htm
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6. http://www.bls.gov/news.release/pdf/forbrn.pdf
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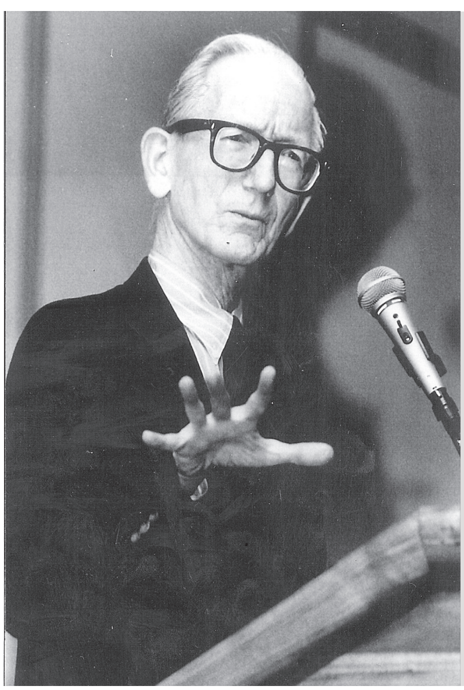

Has America Ceased to be a Real Country?

"The United States is now about to join other nations of the world which were once prepossessing and are now little more than plots of bounded terrain. Like them, the United States will continue to be inhabited by human life; however, Americans will no longer possess that spirit which transforms a people into a citizenry and turns territory into a nation….What was once a nation has become simply an agglomeration of self-concerned individuals; men and women who were once citizens are now merely residents of bounded terrain where birth happens to have placed them."

—Andrew Hacker, *The End of the American Era*, New York: Atheneum Publishers, 1968/1974, pp. 6, 226