

The Cost of Cheap Labor

Polymakers should acknowledge that the less-educated earn less and so use welfare more.

By: Steven Camarota – February 27, 2013

A new study by the Cato Institute attempts to make the case that the use of welfare by immigrants is not really so high or costly. The report's lead author, Leighton Ku, was for many years a researcher at two liberal D.C. think tanks, the Center on Budget and Policy Priorities and the Urban Institute. That the libertarian Cato Institute would employ Ku is a reminder that immigration is not an issue that neatly conforms to the liberal-conservative divide. Ku's central argument is that immigrant welfare use is not worrisome because low-income non-citizens use some programs (the ones he chooses to examine) at rates similar to or even lower than those at which citizens use them.

This is an appealing message for those who, on the right as well as the left, seek to legalize the current illegal population and to increase future immigration, but there are several problems with this analysis.

First, even though the data were available, the authors chose to exclude a number of costly programs, including free or reduced school lunch, WIC, and subsidized and public housing. Second, welfare use by immigrants who have become U.S. citizens is not low. By comparing non-citizens with all citizens, naturalized immigrants as well as the native-born, they obscure the issue.

The third problem is the authors' decision to look at only those with low incomes. Immigrants are 50 percent more likely to belong to that category (as defined in the report) than are natives. What matters to taxpayers is the overall rate of welfare use by immigrants, which is high, not their use of welfare relative to that of natives with the same income or education level. Because immigrants are more likely to be poor, they are significantly more likely to use welfare; if we compare only low-income immigrants and natives, we would miss this key point.

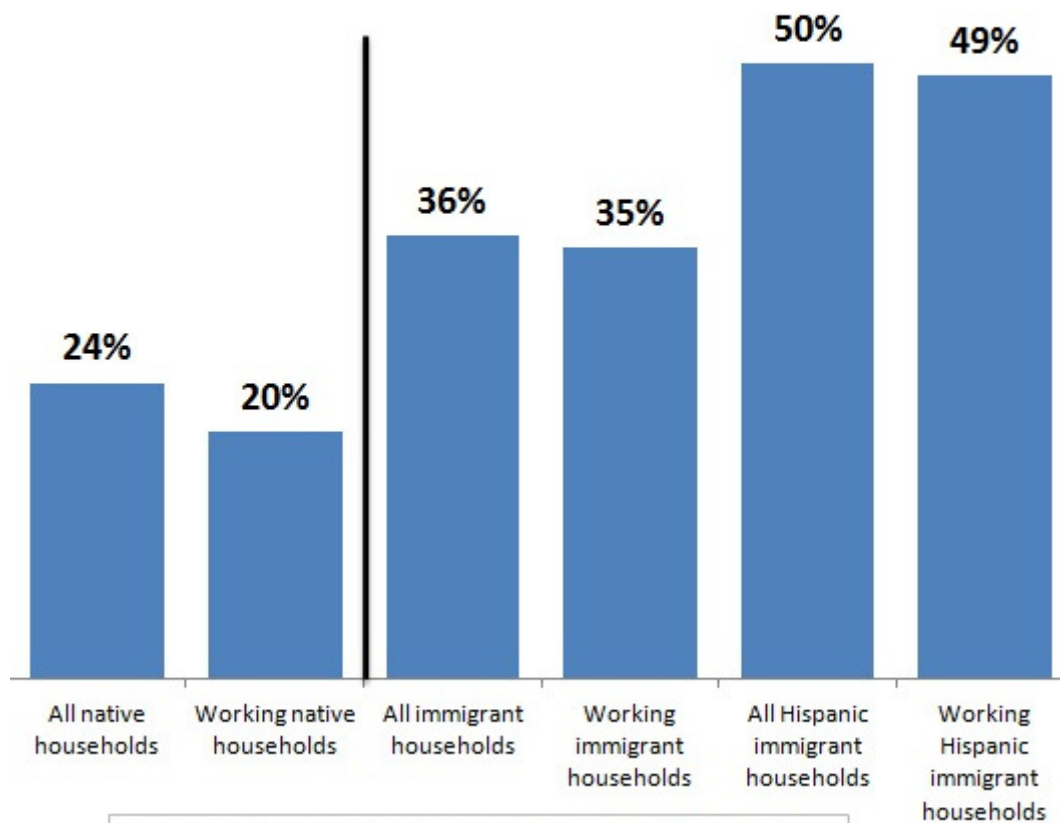
A main reason that welfare use among immigrants is higher than among natives is the low education of the former. Education is the single best predictor of income, welfare use, and socioeconomic status. In 2011, 28 percent of immigrants (ages 25 to 65) had not graduated from high school, compared with 7 percent of natives.

The fourth problem with the report is that, by examining individuals rather than households, the authors obscure the high welfare-use rates associated with the children of immigrants. Because the vast majority of children (defined as those under 18 years of age) in immigrant households are U.S.-born, most researchers examine households, not individuals, to get an accurate picture of the welfare use associated with immigrants. Counting the U.S.-born children with their parents is vital, because it is the low income of immigrant parents that makes the children eligible. It is the parents who signed the children up for the programs, and the parents clearly benefit by having taxpayers provide for their children. Of course, the cost to taxpayers exists only because the parents were allowed into the country.

The importance of the decision about how to classify the children can be seen by examining Medicaid. Of all children in America on Medicaid, only 3 percent are immigrants themselves, but 30 percent of all children on Medicaid have an immigrant parent.

The graph below shows the percentages of households headed by the native-born and by immigrants (both naturalized and non-citizen) that use at least one welfare program. Welfare includes cash (TANF and SSI), food assistance (SNAP, WIC, and free school lunches), public or subsidized housing, and Medicaid. The percentage of immigrant households using welfare is a good deal higher than that of native households — 36 percent versus 24 percent. The use of food-assistance programs and Medicaid is much higher among immigrants than among natives, although the two groups are similar in their use of cash assistance.

Share of Immigrant and Native Headed Households Using One or More Welfare Programs



Source: Current Population Survey, March 2012, by the Census

Hispanic immigrant households in particular have a very high rate of welfare use: 50 percent. This is relevant to the current debate over amnesty, as the Department of Homeland Security estimates that about 80 percent of illegal immigrants come from Latin America.

The government thinks (and I agree) that about 90 percent of all illegal immigrants are included in Census Bureau data that is used to calculate the rates at which immigrants use welfare, but that changes those rates by only a few percentage points. Legal immigrants tend to use programs across the board, while illegal immigrants tend to use only the food programs and Medicaid. For those wanting a longer discussion of the use of public services by illegals, see this report. The analysis reveals that those with the highest welfare use are less-educated immigrants residing in the country *legally*. This is the category that most illegal immigrants will fall into if granted legal status. By itself this fact should give amnesty advocates pause.

Many libertarians will argue that the solution to this problem is simply to bar immigrants from welfare. The 1996 welfare reform did just that for immigrants in the first five years after their arrival. The law had only a modest overall impact for a host of reasons — most immigrants have lived here for more than five years; the ban applies only to some programs; some states provide immigrants welfare with their own tax money; and, perhaps most important, the U.S.-born children of immigrants (including those born to illegal immigrants) are awarded American citizenship, making them eligible for all welfare programs.

Politically it is difficult to imagine cutting immigrants and their children from non-cash programs. Just say the full name of the WIC nutrition program — “Women, Infants, and Children” — and you understand why it is hard to curtail the access of low-income immigrants to welfare.

All of this means that the goal of ensuring that employers have access to less-skilled immigrant workers comes at a high cost to taxpayers. As the graph shows, welfare use is common for immigrant households with at least one worker. In fact, the vast majority of immigrants work, but that in no way precludes their using welfare. From the taxpayers’ standpoint, it would make more sense to draw the enormous number of less-educated citizens already here into jobs rather than to bring in more less-educated workers from abroad.

In the fourth quarter of 2012, there were 27 million American citizens who were 18 to 65 years old, had no education beyond high school, and were not working. (This figure excludes those in jails or prisons.) If just one-fourth of them were employed, their number would nearly equal that of the illegal-alien work force outside agriculture. Some of the unemployed may lack a sufficient work ethic, but note that real wages (adjusted for inflation) for less-educated Americans have declined 10 to 22 percent in the past three decades as immigration has grown. Relative to the real wages of college graduates, the decline is even more dramatic. That less-skilled work pays so much less than what it used to likely explains, at least in part, any erosion of the work ethic among less-skilled workers.

There is good evidence that immigration has reduced wages and employment opportunities for less-educated Americans. Even more important, there is no shortage of less-skilled labor in the United States. To be sure, if employers’ access to the labor of less-skilled immigrants, both legal and illegal, were curtailed, they would have to pay higher wages and guarantee better working conditions to attract and retain native-born citizens. But improving the lives of our poorest workers, legal immigrants as well as natives, should be viewed as good public policy.

We have two choices: (1) enforce immigration laws, leading illegal immigrants to go home, and select future legal immigrants for their skills instead of their family relationships, or (2) accept the high fiscal costs of immigration. My own research and that of Robert Rector at the Heritage Foundation shows that granting legal status to illegal immigrants will dramatically increase costs because even more of the barriers to immigrant use of welfare and other means-tested

programs will fall. Rector estimates that the net fiscal cost (services provided minus taxes paid) of amnesty over the long term will be over \$2 trillion.

The high rate of welfare use by immigrant households should not be seen as a moral defect on the part of immigrants. What it reflects is that, in the modern American economy, less-educated workers are generally able to earn only modest wages. It also reflects the existence of a well-developed welfare state. We simply need an immigration policy that acknowledges these realities. Otherwise, the costs to taxpayers will continue to mount.