

**IMMIGRANTS' COSTS AND CONTRIBUTIONS:
THE EFFECTS OF REFORM**

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Michael Fix
Vice President and Director of Studies

Migration Policy Institute
National Center on Immigrant Integration Policy
(202) 266-1940
Fax (202) 266-1900
mfix@migrationpolicy.org

SUMMARY

Debate over immigration and proposals to reform it raise a number of issues that have been at the center of research conducted over the past decade on selected costs and benefits. In my testimony today I would like to raise several issues regarding immigrants' costs and contributions.

In sum, my points are as follows:

- The 1996 welfare reform law substantially restricted new legal immigrants' access to public benefits, limiting the federal government's fiscal exposure in the short-run.
- The exacting character of proposed legislation would bar the current undocumented population from social welfare programs through 2020.
- Since welfare reform's enactment, use of Temporary Assistance for Needy Families, Supplemental Security Income, and Food Stamps has fallen substantially among low income legal immigrant families with children. Medicaid for immigrants, like citizens, does not follow this trend, and corresponds to a general decline in extension of private health insurance benefits to low-wage workers.
- During the 1990s many immigrants moved from states with comparatively generous public welfare programs for immigrants to states with strong economies but less generous programs, raising doubts about the strength of welfare magnets.
- Cohorts of immigrants in the US 10 years or more had significantly higher incomes than those in the US less than 10 years – *suggesting* substantial income gains. Naturalized citizens in the US 10 or more years had higher average incomes than natives. Lower incomes were found among both recent and established undocumented immigrants, again suggesting that regularization would boost wages and taxes.
- A study of taxes paid by immigrants in the Washington DC region revealed that immigrant households pay substantial taxes. Immigrants' tax payments were proportional to their share of the total regional population.
- Tax payments in the Washington region varied by legal status, with payments and compliance ascribed to undocumented immigrants being lowest. This finding suggests that a legalization program that effectively mandates full tax compliance as a condition for earning LPR status would lead to higher tax yields, which would be felt immediately (unlike increased usage of many social benefits—which to the degree it actually occurs—would be delayed for many years).
- Higher tax yields might be supplemented by higher incomes. The wage benefit of legalization under IRCA was approximately 6 percent.

I will address several points in turn:

First, I will briefly explore the degree to which current comprehensive reform proposals are likely to affect social welfare systems by focusing on (1) the existing bars that restrict legal immigrants' access to benefits; (2) patterns of declining benefit use among legal immigrants; and (3) the labor-driven, rather than welfare-driven, movement of immigrants that we see in today's settlement patterns.

Second, I will note patterns of wage growth and mobility among immigrants over time, differentiating, among other things, between legal statuses.

Third, in a related vein, I will say a word about the taxes paid by immigrants by highlighting the Washington Metropolitan area, a major new gateway region.

AVAILABILITY OF BENEFITS

The 1996 welfare reform law imposed restrictions on new *legal* immigrants' access to means-tested federal public benefits. Recent discussion of immigration reform has often overlooked this fact and the likelihood that the law will limit benefit outlays associated with such immigration reforms as a legalization program or expanded legal immigration. The Senate bill's emphasis on skilled and educated immigrants and the proposed temporary worker program would mean that a large component of new permanent immigrants would not likely need social services, while temporary workers would not qualify for most forms of assistance.

Prior to the 1996 welfare reform, legal immigrants were eligible for benefits on the same terms as citizens. Following the law's enactment, states were authorized to largely discriminate against legal immigrants in their public benefit programs. The most severe restrictions were imposed on immigrants arriving after August 22, 1996, the law's date of enactment. These restrictions essentially bar nearly all legal immigrants arriving after that date from receiving selected means-tested public benefits—Supplemental Security Income, Temporary Assistance for Needy Family, Medicaid, State Children's Health Insurance Program, and Food Stamps—for at least five years.

These restrictions are not the only barriers to access to public benefits for post-96 immigrants. In addition, immigrants entering under the family unification provisions of immigration law must sign an enforceable affidavit of support that makes their sponsors liable for benefits they use. Further, the sponsor's income is deemed to the immigrant — commonly making the immigrant's income too high to qualify for means-tested public benefits. The sponsor deeming provision extends until an immigrant naturalizes or establishes a work history of 40 quarters (i.e., at least 10 years) — in many cases a date substantially beyond the five-year bar.

These multiple barriers serve to push back the date of new immigrants' eligibility for benefits. Fully 40 percent of legal immigrants in the US today arrived after 1996, and so have been subject to the welfare restrictions; new immigrants or those legalized as a result of comprehensive immigration reform would be no different.

Beyond the barriers to access embedded in welfare reform, the proposed comprehensive reform legislation (as reflected by S. 2611) further lengthens the time before a formerly undocumented immigrant will be eligible for means-tested public benefits.¹ According to the Congressional Budget Office, the earliest most undocumented immigrants would be eligible for benefits would be 2020, almost 20 years after their entry into the United States. This delayed access owes to the fact that most might not become legal permanent residents until eight years after the initiation of the legalization process, at which time they would have to wait another five years as a result of welfare reform bars to access benefits. Further, the qualification process described in S. 2611—which includes extensive employment and acquisition of some English—is quite exacting. Those who attain permanent legal status and wait an additional five years are likely to have benefited financially from the wage gains that US work experience and English skills bring and thus be less likely to need public assistance in the future than at the time of arrival.

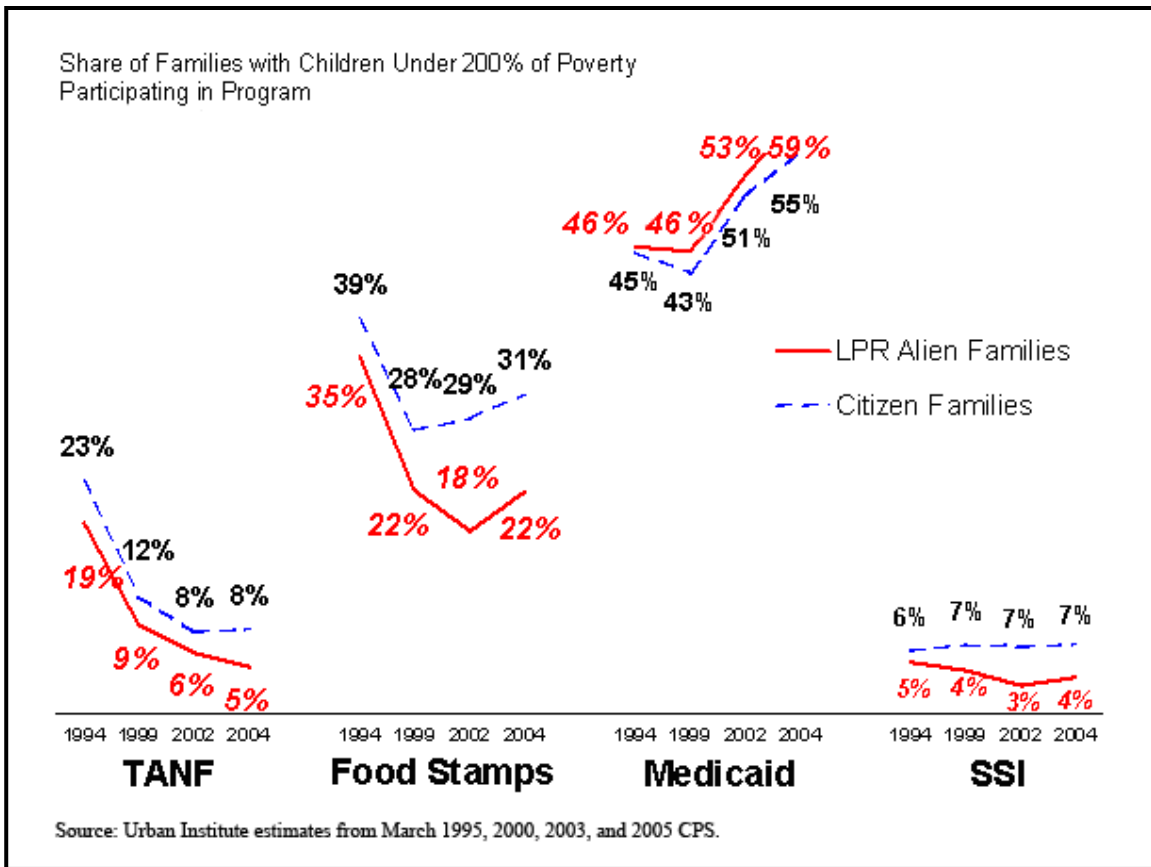
DECLINE IN BENEFIT USE BY LEGAL IMMIGRANTS

Research by MPI and the Urban Institute suggests two other trends in the use of public assistance among immigrants that have been downplayed in the current debate over immigration reform's impacts on the social welfare system. One is the decline in the use of most public benefits by legal immigrants in the wake of welfare reform's 1996 enactment.

As Figure 1 indicates, following reform, we see sharp drops in TANF use among immigrant families. Immigrant use of TANF was lower than that of citizens both before and after welfare reform, falling from 19 percent in 1994 to 4.5 percent in 2004. (Our analysis focuses on low-income, legal noncitizen-headed families with children. We contrast them with low-income, citizen-headed families with children.) Similar patterns emerge through 2002 when we examine Food Stamps. There is a slight up-tick in use from 2002 through 2004, perhaps reflecting policy changes in the program introduced by the 2002 Farm Bill, which restored eligibility to working age adults who had been in “qualified status” in the United States for five or more years, and to legal, noncitizen children regardless of date of entry. Finally, we see declines in SSI use among legal, noncitizen-headed families for the period 1996 – 2004; in fact, noncitizens' usage levels in 2004 are just over half those of citizens.

¹ Under current law, undocumented are eligible for emergency Medicaid. Their US born children are citizens and hence eligible for benefits.

Figure 1: Low-Income Families' Benefit Usage, 1994-2004



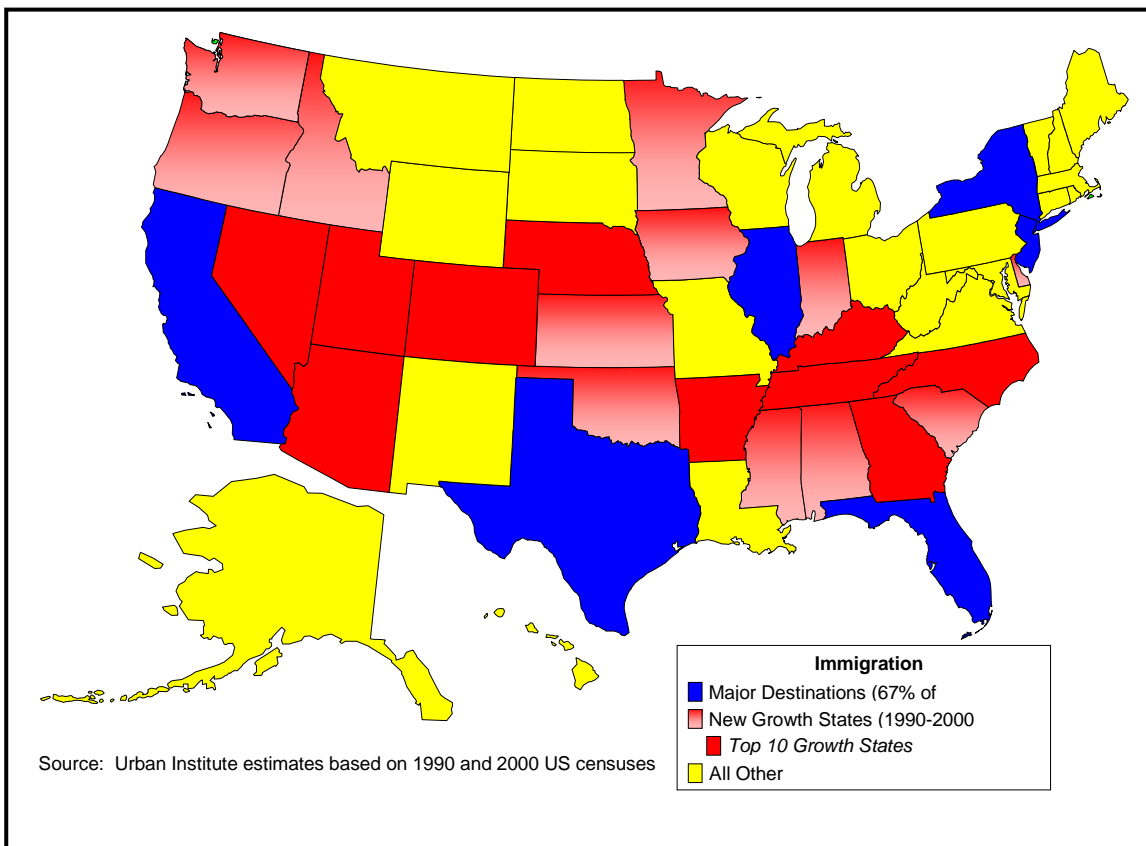
For each program, then, benefit use among immigrant families has fallen since welfare reform and is substantially lower than that of citizens. This is not the image of immigrants and social welfare reliance that is commonly conveyed.

We do, however, see different patterns when it comes to Medicaid – with use among noncitizen families exceeding that of natives and rising since 1999. Generally higher levels of Medicaid use among legal, noncitizen families may reflect the introduction of the 1997 SCHIP program, broad outreach in the late 1990s to boost enrollment, and a reduction in private insurance coverage among low-wage immigrant workers and low-wage workers more generally.

DISPERSAL FROM HIGH TO LOWER BENEFIT STATES

A third general point that has not received much attention in the current debate over immigration benefits is the dispersal of immigrants between 1990 and 2000 away from states that have comparatively generous public benefit programs (California, most notably) toward many states with less generous state eligibility rules for legal immigrants such as Georgia, Tennessee, and Colorado (See Figure 2). This trend suggests that welfare remains a far less powerful magnet for newcomers than jobs.

Figure 2: New Immigration Growth Centers



Declining benefit use, the continuation of stringent restrictions on legal immigrants' access to public benefits, and changing spatial migration patterns suggest that fears that welfare systems will be swamped by increased legal immigration and a legalization program are overstated.

LABOR FORCE PARTICIPATION, WAGE GROWTH AND MOBILITY, AND TAXES

We turn now to the other side of that fiscal equation that is so often discussed in debates over immigration reform: the contributions of immigrants to the federal purse. But first I would like to highlight some of the most relevant facts about immigrants in the labor force that position them to make these contributions.

Immigrants contribute significantly to the US workforce and economy. Since 2000, immigrants have made up 46 percent of the growth in the US labor force, and today there are more than 22 million foreign-born workers.² While immigrants are one in eight US residents, they are one in seven workers, and one in five low-wage workers. At the same time, the foreign-born now account for one in every five doctors; one in five computer

² Bureau of Labor Statistics, "Foreign-Born Workers: Labor Force Characteristics in 2005," (Washington, DC: US Department of Labor, 2006). Available: <http://www.bls.gov/news.release/pdf/forbrn.pdf>

specialists, and one in six professionals in engineering or science occupations in the United States.³

Clearly immigrants' skills affect their incomes and tax contributions. It is also notable that the wages of immigrants rise over time and their rates of growth outpace those of natives, perhaps by 10 to 13 percent in the first twenty years an immigrant is in the United States.⁴ While these gains do not fully compensate for the large *average* earning differential between natives and immigrants at arrival, the fact that immigrants are earning more over time means that they have more to contribute to the federal treasury the longer they are in the United States.⁵

Legal status is also related to wages. Research that followed illegal immigrants regularizing under IRCA in 1986 found that the wage benefit of legalization for previously unauthorized immigrants was 6 percent.⁶

Incomes and Legal Status. Figure 3 compares incomes of cohorts of immigrants in the United States for less than 10 years in 2002 with those who had been in the country for 10 years or more. The data shows that for all groups, except the unauthorized, immigrants who have been in the country for 10 years or more have substantially higher family incomes than their more recently-arrived counterparts. The data also reveals that the incomes of naturalized citizens in the United States for more than 10 years exceed those of natives' and that those of refugees and legal immigrants approach those of natives. We see much lower incomes and smaller differences in incomes among unauthorized immigrants, suggesting the potential value of legal status for economic integration and for tax contributions.

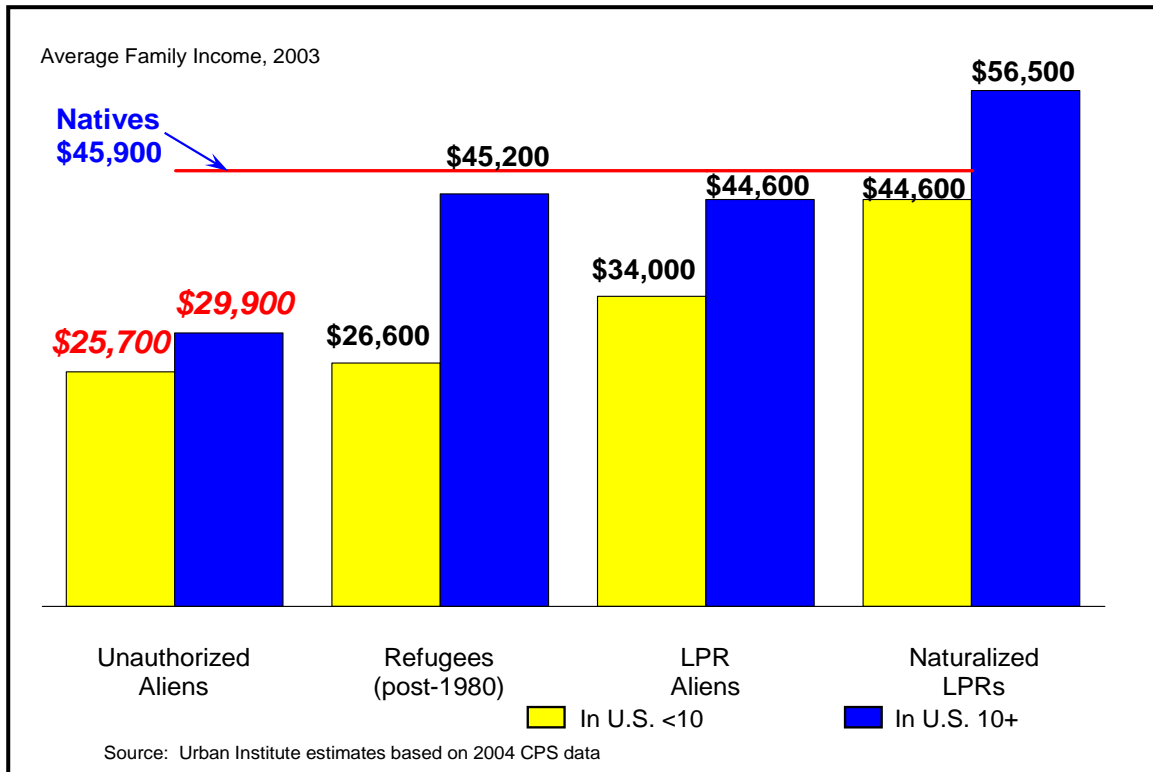
³ Neeraj Kaushal and Michael Fix, "The Contributions of High Skilled Immigrants," (Washington, DC: Migration Policy Institute, 2006).

⁴ Darren Lubotsky, "Chutes or Ladders?: A Longitudinal Analysis of Immigrant Earnings," Princeton University Industrial Relations Section Working Paper No. 445, 2000. This paper is particularly rigorous in that it relies on longitudinal—as opposed to cross-sectional—data.

⁵ With regard to wage differentials between natives and new immigrants, see: David Card, "Is the New Immigration Really So Bad?" IZA Discussion Paper Series, No. 1119, 2004.

⁶ Sherrie A. Koussoudji and Deborah Cobb-Clark, "Coming Out of the Shadows: Learning about Legal Status and Wages from the Legalized Population," *Journal of Labor Economics* 20 (3), 2002.

Figure 3: Immigrants' Income by Time in the US and by Immigration Status



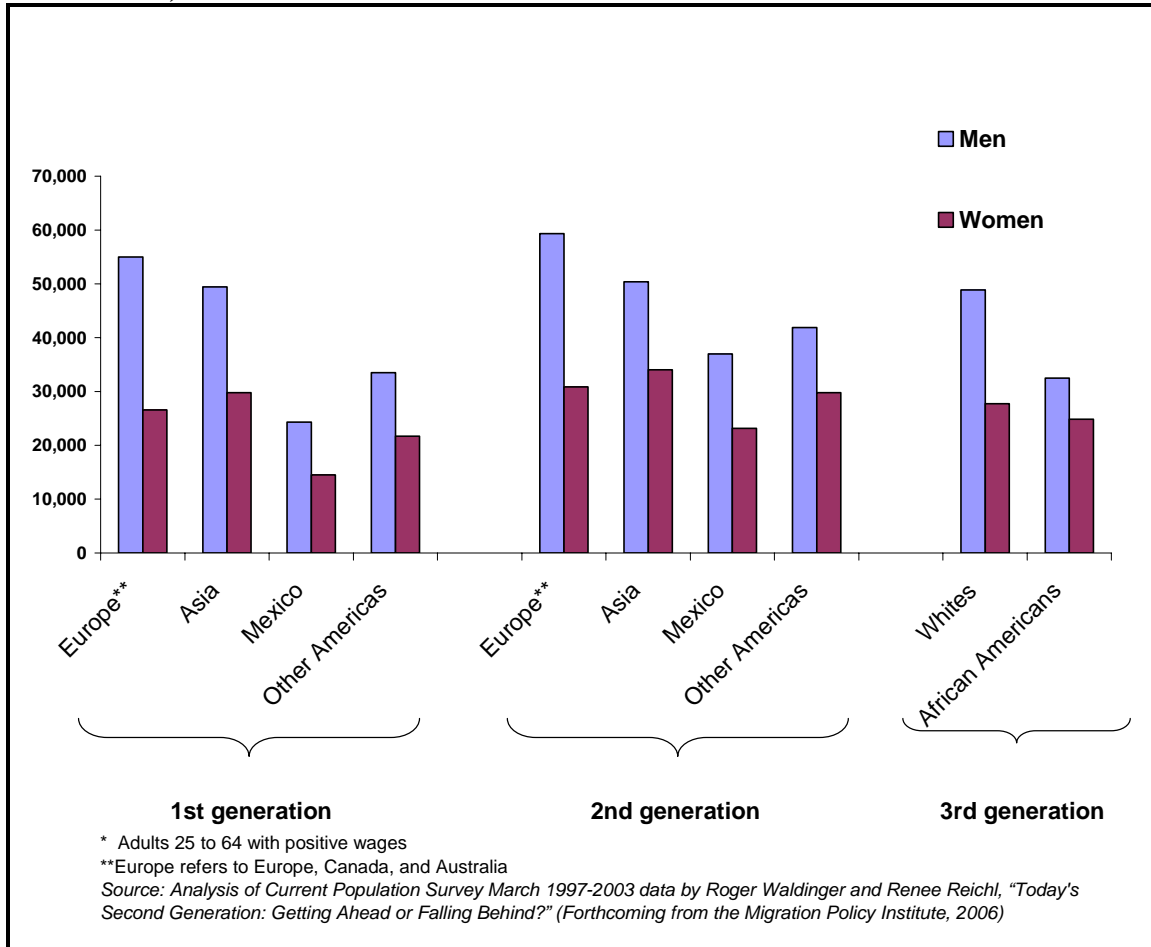
Generational Mobility. Any analysis of the contributions of immigrants should arguably take a somewhat longer view than most fiscal analyses. By that, I mean, looking at the second generation and its outcomes—in some ways the crucible for economic progress. In examining this topic, Professor Roger Waldinger, the former Chairman of the Department of Sociology at the University of California, Los Angeles, has divided the first and second generation into broad categories:

- Mexicans;
- Asians;
- Europeans, Canadians, and Australians; and
- Other Americans (From Central and South America and the Caribbean).

Results were compared with white and black 3rd + generations.⁷

⁷ Roger Waldinger and Renee Reichl, “Today’s Second Generation: Getting Ahead or Falling Behind?” *Securing the Future: The US Immigrant Integration Policy Agenda*, Michael E. Fix Ed. (Washington, DC: Migration Policy Institute, forthcoming 2006).

Figure 4: Median Yearly Wage and Salary Income of Adults* by Generation, Origin, and Gender, 2000



Waldinger finds that *all* of these broadly defined immigrant groups are making generational progress along almost all indicators: rates of high school graduation, college completion, incomes, and job quality as measured by health insurance and pensions. With regard to incomes, he finds that while Mexicans lag all groups in the first generation, substantial growth occurs in the wages and salaries of the second, with incomes approaching those of African American natives. (Figure 4)

Tax Contributions. In today's economy, then, the foreign-born are playing an expanding role in the workforce, and as a consequence, making sizable tax contributions. In the future, new tax contributions stemming from comprehensive immigration reform proposals like that set forth in S. 2611 would be felt immediately, in contrast to the delayed impact of potential welfare benefit usage among legalized or newly arrived immigrants.

In a recent study, Jeffrey S. Passel, Randy Capps, and I examined the federal, state and local taxes paid by immigrant households in the Washington Metropolitan Region.⁸ Despite polls finding most people believe immigrants do not pay their fair share in taxes, our analysis revealed that immigrant households paid taxes at the nearly the same rates as native households. Further, as earlier studies in New York and Illinois have shown, immigrants' tax payments are proportional to their share of the regional population. That is, immigrants paid the same share of the region's overall taxes (18 percent) as their share of the total population (17.4 percent).

The study also found that immigrant households in Northern Virginia paid eight percent of all state taxes paid by households in Virginia (\$810 million out of \$9 billion). Immigrant households in suburban Maryland paid an equivalent share of all Maryland state taxes (\$560 million out of \$6 billion). These findings highlight the fact that immigrants' tax payments support both local and state services on which residents draw, in addition to supporting the federal government.

While all immigrants pay a substantial share of their incomes in taxes, we found, as with incomes, that tax payments are correlated with legal status. Naturalized citizens paid higher taxes than households headed by native-born citizens. Households headed by legal permanent residents and refugees had slightly lower incomes and paid somewhat lower taxes. Those headed by undocumented immigrants had the lowest average incomes and therefore paid the lowest average taxes. Based on other analyses we assumed that a little over half of unauthorized immigrants paid payroll taxes. Here again it appears that legislation that would change this population's legal work authorization, effectively mandating full tax compliance, would likely lead to higher incomes, thereby raising immigrants' fiscal contributions to the federal, state, and local coffers.

In sum – these trends in welfare use and tax contributions are often ignored in debates over immigration's impacts and the merits of reform. While I make no attempt to sum them up, these trends suggest that reform's fiscal impacts may be much more positive than the current debate would lead one to believe and far more complex than the caricature found in some of the literature.

OTHER ECONOMIC IMPACTS

To close let me indicate a few additional impacts that affect the federal purse. Decade after decade we have found that immigrant entrepreneurship creates jobs and, as a result, boosts tax payments. Immigrants are increasingly associated with further openings to trade and other forms of exchange that promote business. The foreign-born population's willingness to follow jobs to other states and localities makes the US economy run more efficiently. High-skilled immigrants innovate in key sectors of the economy. And immigrant workers both produce and, in turn, consume goods and services – thus creating jobs that might not otherwise have existed that in turn have wider economic ripple effects.

⁸ While the Washington region is a new gateway community, it may not be representative of the nation as a whole. Its immigrant population is unusually diverse and is composed of a comparatively large share of Asian immigrants. See, R. Capps, *et. al. Civic Contributions: Taxes Paid by Immigrants in the Washington DC Metropolitan Area*, (Washington, DC: The Community Foundation and the Urban Institute, 2006).