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CONGRESSIONAL TESTIMONY

The Fiscal Cost of Low-Skill Immigrants to the U.S. Taxpayer

Testimony before
The Subcommittee on Immigration
Committee on the Judiciary
United States House of Representatives

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My name is Robert Rector. I am Senior Research Fellow for Welfare and Family Issues at The Heritage Foundation. The views I express in this testimony are my own, and should not be construed as representing any official position of The Heritage Foundation.

Summary

This testimony provides a fiscal analysis of households headed by immigrants without a high school diploma. The testimony refers to these households as "low-skill immigrant households." In FY 2004 there were around 4.5 million low-skill immigrant households in the U.S. containing 15.9 million persons. About 60 percent of these low-skill immigrant households were headed by legal immigrants and 40 percent by illegal immigrants. The analysis presented here measures the total benefits and services received by these "low- skill immigrant households" compared to the total taxes paid. The difference between benefits received and taxes paid represents the total resources transferred by government on behalf of this group from the rest of society.

In FY 2004, low-skill immigrant households received $30,160 per household in immediate benefits and services (direct benefits, means-tested benefits, education, and population-based services). In general, low-skill immigrant households received about $10,000 more in government benefits than did the average U.S. household, largely because of the higher level of means-tested welfare benefits received by low-skill immigrant households.

In contrast, low-skill immigrant households pay less in taxes than do other households. On average, low-skill immigrant households paid only $10,573 in taxes in FY 2004, thus low-skill immigrant households received nearly three dollars in immediate benefits and services for each dollar in taxes paid.

A household's net fiscal deficit equals the cost of benefits and services received minus taxes paid. When the costs of direct and means-tested benefits, education, and population-based services are counted, the average low-skill household had a fiscal deficit of $19,588 (expenditures of $30,160 minus $10,573 in taxes).

Low-skill immigrant households impose substantial long-term costs on the U.S. taxpayer. Assuming an average adult life span of 60 years for each head of household, the average lifetime costs to the taxpayer will be nearly $1.2 million for each low-skill household for immediate benefits received minus all taxes paid.

As noted, in 2004, there were 4.5 million low skill immigrant households. With an average net fiscal deficit of $19,588 per household, the total annual fiscal deficit for all of these households together equaled $89.1 billion (the deficit of $19,588 per household times 4.54 million low-skill immigrant households). Over the next ten years, the net cost (benefits minus taxes) to the taxpayer of low-skill immigrant households will approach $1 trillion.

Current immigrants (both legal and illegal) have very low education levels relative to the non-immigrant U.S. population. At least 50 percent, and perhaps 60 percent of illegal immigrant adults lack a high school degree.[1] Among legal immigrants the situation is better, but a quarter still lack a high school diploma. Overall, a third of immigrant households are headed by individuals without a high school degree. By contrast, only nine percent of non-immigrant adults lack a high school degree. The current immigrant population, thus, contains a disproportionate share of poorly educated individuals. These individuals will tend to have low wages, pay little in taxes and receive above average levels of government benefits and services.

Recent waves of immigrants are disproportionately low-skilled because of two factors. For years, the U.S. has had a permissive policy concerning illegal immigration: the 2000 mile border with Mexico has remained porous and the law prohibiting the hiring of illegal immigrants has not been enforced. This encourages a disproportionate inflow of low-skill immigrants because few college educated workers are likely to be willing to undertake the risks and hardships associated with crossing the southwest U.S. deserts illegally. Second, the legal immigration system gives priority to "family reunification" and kinship ties rather than skills; this focus also significantly contributes to the inflow of low-skill immigrants into the U.S.

The U.S. currently operates a very generous system of government benefits and services that heavily subsidizes disadvantaged native-born Americans. These individuals receive a very expensive array of government welfare benefits and other services throughout their life-times and pay little in taxes. While this fiscal redistribution system is justified for low-skill native-born Americans, it will be fiscally ruinous to apply it to a massive influx of poorly educated immigrants from the third world.

Types of Government Expenditure

To ascertain the distribution of government benefits and services, my analysis begins by dividing government expenditures into four categories: direct benefits; means-tested benefits; educational services; and population-based services.

Direct Benefits

Direct benefit programs involve either cash transfers or the purchase of specific services for an individual. Unlike means-tested programs (described below), direct benefit programs are not limited to low-income persons. By far, the largest direct benefit programs are Social Security and Medicare. Other substantial direct benefit programs are Unemployment Insurance and Workmen's Compensation.

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[1] Jeffrey S. Passel, *The Size and Characteristics of the Unauthorized Migrant Population in the U.S.: Estimates Based on the March 2005 Current Population Survey,* Pew Hispanic Center, March 7, 2006. See also Jeffrey S. Passel, *Unauthorized Migrants: Numbers and Characteristics,* Pew Hispanic Center, June 14, 2005. Steven S. Camarota, *The High Cost of Cheap Labor: The Impact of Illegal Immigration on the Federal Budget,* Center for Immigration Studies, August, 2004.

Direct benefit programs involve a fairly transparent transfer of economic resources. The benefits are parceled out discretely to individuals in the population; both the recipient and the cost of the benefit are relatively easy to determine. In the case of Social Security, the cost of the benefit would equal the value of the Social Security check plus the administrative costs involved in delivering the benefit.

Calculating the cost of Medicare services is more complex. Ordinarily, government does not seek to compute the particular medical services received by an individual. Instead, government counts the cost of Medicare for an individual as equal to the average per capita cost of Medicare services. (This number equals the total cost of Medicare services divided by the total number of recipients.)[2] Overall, government spent $840 billion on direct benefits in FY 2004.

Means-Tested Benefits

Means-tested programs are typically termed welfare programs. Unlike direct benefits, means-tested programs are available only to households below specific income thresholds. Means-tested welfare programs provide cash, food, housing, medical care, and social services to poor and low-income persons.

The federal government operates over 60 means-tested aid programs.[3] The largest of these are Medicaid; the Earned Income Tax Credit (EITC); food stamps; Supplemental Security Income (SSI); Section 8 housing; public housing; Temporary Assistance to Needy Families (TANF); the school lunch and breakfast programs; the WIC (Women, Infants, and Children) nutrition program; and the Social Services Block Grant (SSBG). Many means-tested programs, such as SSI and the EITC, provide cash to recipients. Others, such as public housing or SSBG, pay for services that are provided to recipients. Overall, the U.S. spent $564 billion on means-tested aid in FY 2004.[4]

Public Education

Government provides primary, secondary, post-secondary, and vocational education to individuals. In most cases, the government pays directly for the cost of educational services provided. Education is the single largest component of state and local government spending, absorbing roughly a third of all state and local expenditures.

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[2]For example, the Census Bureau assigns Medicare costs in this manner in the Current Population Survey.

[3]Congressional Research Service, *Cash and Noncash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data, FY2002–FY 2004,* March 27, 2006. The value of Medicaid benefits is usually counted in a manner similar to Medicare benefits. Government does not attempt to itemize the specific medical services given to an individual; instead, it computes an average per capita cost of services to individuals in different beneficiary categories such as children, elderly persons, and disabled adults. (The average per capita cost for a particular group is determined by dividing the total expenditures on the group by the total number of beneficiaries in the group.)

[4]This spending figure excludes means-tested veterans programs and most means-tested education programs.

The average per pupil cost of public primary and secondary education is now around $9,600 per year. Overall, federal, state, and local governments spent $590 billion on education in FY 2004.

Population-Based Services

Whereas direct benefits, means-tested benefits, and education services provide discrete benefits and services to particular individuals, population-based programs generally provide services to a whole group or community. Population-based expenditures include police and fire protection, courts, parks, sanitation, and food safety and health inspections. Another important population-based expenditure is transportation, especially roads and highways.

A key feature of population-based expenditures is that such programs generally need to expand as the population of a community expands. (This quality separates them from pure public goods, described below.) For example, as the population of a community increases, the number of police and firemen will generally need to expand in proportion.

In its study of the fiscal costs of immigration, *The New Americans*, the National Academy of Sciences argued that if a service remains fixed while the population increases, a program will become "congested", and the quality of the service for users will deteriorate. Thus, the National Academy of Sciences uses the term "congestible goods" to describe population-based services.[5] Highways are an obvious example of this point. In general, the cost of population-based services can be allocated according to an individual's estimated utilization of the service or at a flat per capita cost across the relevant population. Government spent $662 billion on population-based services in FY 2004.

Exclusion of Public Goods and Interest on Government Debt from Calculations

The four expenditure categories described above can be termed "immediate benefits and services". There are two additional spending categories, which have less relevance to immigrants. They are:

- **Interest and other financial obligations resulting from prior government activity,** including interest payments on government debt and other expenditures relating to the cost of government services provided in earlier years; and

- **Pure public goods,** which include national defense, international affairs and scientific research, and some environmental expenditures.

Unlike the first four spending categories, expenditures on public goods, debt and other financial obligations are fixed and are largely independent of the level or type of

[5]National Research Council, *The New Americans: Economic, Demographic, and Fiscal Effects of Immigration,* National Academy Press, Washington, D.C., 1997, p. 303

immigration flow into the U.S. The entry of legal or illegal immigrants into the U.S. will not cause expenditures in these two categories of expenditure to increase, therefore these two categories of expenditure are not included in the fiscal burden calculation for low-skill immigrants presented in this testimony.

Summary: Total Expenditures

As Table 1 shows, overall government spending in FY 2004 came to $3.75 billion. Direct benefits had an average cost of $7,326 per household across the whole population, while means-tested benefits had an average cost of $4,920 per household. Education benefits and population-based services cost $5,143 and $5,765, respectively. Interest payments on government debt and other costs relating to past government activities cost $3,495 per household. Pure public good expenditures comprised 18.5 percent of all government spending and had an average cost of $6,056 per household. Excluding spending on public goods, interest on the debt and related financial obligations, total spending came $23,154 per household across the entire population.

Table 1

Summary of Total Federal, State and Local Expenditures FY2004

	Federal Expenditures (in millions)	State and Local Expenditures (in millions	Total Expenditures (in millions)	Percentage of Total Expenditures	Average Expenditure Per Household Whole Population (in dollars)
Direct Benefits	783,350	57,607	840,957	22.4%	$7,326
Means-tested Benefits	406,512	158,240	564,752	15.0%	$4,920
Educational Benefits	59,621	530,801	590,422	15.7%	$5,143
Population-Based Services	180,122	481,696	661,818	17.6%	$5,765
Interest and Related Costs*	182,000	219,260	401,260	10.7%	$3,495
Pure Public Goods Expenditures	694,153	1,050	695,203	18.5%	$6,056
Total Expenditures	**2,305,758**	**1,448,654**	**3,754,412**	**100.0%**	**$32,706**
Total Expenditures Less Public Goods, Interest, and Related Costs	**1,429,605**	**1,228,344**	**2,657,948**		**$23,154**

* Excludes interest costs resulting from public goods expenditures in prior years

Estimation Methodology

The methodology used in this testimony is fully explained in my recent publication, *The Fiscal Cost of Low Skill Households to the U.S. Taxpayer.*[6] The analysis

[6] Robert Rector, Christine Kim, Shanea Watkins, *The Fiscal Cost of Low- Skill Households to the U.S. Taxpayer, Heritage Special Report,* Sr-12, The Heritage Foundation, Washington, D.C. April 4, 2007.

is based on three core methodological principles: comprehensiveness; fiscal accuracy; and transparency.

- Comprehensiveness – The analysis seeks to cover all government expenditures and all taxes and similar revenue sources for federal, state and local governments. Comprehensiveness helps to ensure balance in the analysis; if a study covers only a limited number of government spending programs or a portion of taxes, the omissions may bias the conclusions.

- Fiscal accuracy – A cardinal principle of the estimation procedure employed for each expenditure program or category in the analysis is that, if the procedure is replicated for the whole U.S. population, the resulting estimated expenditure will equal actual expenditures on the program according to official budgetary documents. The same principle is applied to each tax and revenue category. Altogether, the estimating procedures used in this paper, if applied to the entire U.S. population, will yield figures for total government spending and revenues that match the real life totals presented in budgetary sources.

- Transparency – Specific calculations were made for 30 separate tax and revenue categories and over 60 separate expenditure categories. Since conclusions can be influenced by the assumptions and procedures employed in any analysis, we have endeavored make the mechanics of the analysis as transparent as possible to interested readers by describing the details of each calculation in the monograph.[7]

Data on receipt of direct and means-tested benefits were taken from the U.S. Census Bureau's Current Population Survey (CPS). Data on attendance in public primary and secondary schools were also taken from the CPS; students attending public school were then assigned educational costs equal to the average per pupil expenditures in their state. Public post-secondary education costs were calculated in a similar manner.

Wherever possible, the cost of population-based services was based on the estimated utilization of the service by low-skill immigrant households. For example, the low-skill immigrant households' share of highway expenditures was assumed, in part, to equal their share of gasoline consumption as reported in the Bureau of Labor Statistics Consumer Expenditure Survey (CEX). When data on utilization of a service were not available, the estimated low-skill immigrant households' share of population-based services was assumed to equal their share of the total U.S. population.

Sales, excise, and property tax payments were based on consumption data from the Consumer Expenditure Survey (CEX). For example, if the CEX showed that low-skill immigrant households accounted for 10 percent of all tobacco product sales in the U.S., those households were assumed to pay 10 percent of all tobacco excise taxes.

[7] Robert Rector, *The Fiscal Cost of Low- Skill Households to the U.S. Taxpayer, op.cit.*

Federal and state income taxes were calculated based on data from the CPS. FICA taxes were also calculated from CPS data and were assumed to fall solely on workers. Corporate income taxes were assumed to be borne partly by workers and partly by owners; the distribution of these taxes was estimated according to the distribution of earnings and property income in the CPS.

CPS data generally underreport both benefits received and taxes paid somewhat. Consequently, both benefits and tax data from the CPS had to be adjusted for underreporting. The key assumption in this adjustment process was that households headed by immigrants without a high school diploma (low-skill immigrant households) and the general population underreport benefits and taxes to a similar degree. Thus, if food stamp benefits were underreported by 10 percent in the CPS as a whole, then low-skill immigrant households were also assumed to underreport food stamp benefits by 10 percent. In the absence of data suggesting that low-skill and high-skill households underreport at different rates, this seemed to be a reasonable working assumption. The *New Americans* study of immigration by the National Academy of Sciences also adjusted for under-reporting in its fiscal analysis.

Estimating Taxes and Benefits for Illegal Immigrant Households

By most reports, there were some 11 million illegal immigrants in the U.S. in 2004. [8] About 9.3 million of these individuals were adults.[9] Roughly 50 to 60 percent of these illegal adult immigrants lacked a high school degree.[10] About ninety percent of illegal immigrants are reported in the CPS.[11] This testimony covers only those illegal immigrants reported in the CPS and does not address the remaining ten percent not counted by Census.

Assuming that the illegal immigrant households omitted from the CPS are similar to those that are included, incorporation of the missing 10 percent of illegals (roughly one million individuals) might raise the aggregate net tax burden imposed by low-skill immigrant households by roughly 4 percent; these additional costs are not addressed in this testimony.[12] If there are more than 11 million illegal immigrants in the U.S., then the number of illegal immigrants who reside in the U.S. but do not appear in the CPS would be greater than one million and the costs to the taxpayer would be proportionately greater. Again, any such potential costs are not included in the analysis in this testimony which is limited to the legal and illegal immigrant households that appear in the CPS.[13]

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[8] Passel, 2005, op. cit., p. 2.
[9] Ibid., p 6.
[10] Passel, 2004, p.23
[11] Passel, 2004, p. 4.
[12] This figure assumes that the missing illegal immigrant households are similar to those appearing in the CPS. If 41 percent of low skill immigrant households are illegal, then the addition of 10 percent more illegal immigrant households would boost the overall number of low skill immigrant households by roughly 4 percent. Presumably, the aggregate net tax burden would increase proportionately.
[13] A very small number of immigrants who reside in nursing facilities has also been added to the calculations; individuals who reside in nursing facilities do not appear in the CPS.

Of the 4.5 million low-skill immigrant households analyzed in this report an estimated 41 percent were headed by illegal immigrants.[14] Households headed by illegal immigrants differ from other immigrant households in certain key respects. Illegal immigrants themselves are not eligible for means-tested welfare benefits, but illegal immigrant households do contain some 3 million children who were born inside the U.S. to illegal immigrant parents; these children are U.S. citizens and are eligible for and do receive means-tested welfare.

Most of the tax and benefits estimates presented in this paper are unaffected by a low-skill immigrant household's legal status. For example, children in illegal immigrant households are eligible for, and do receive, public education. Similarly, nearly all the data on direct and means-tested government benefits in the CPS is based on a household's self report concerning receipt of each benefit by family members. Because eligibility for some benefits is limited for illegal immigrants, illegal immigrants will report lower benefit receipt in the CPS, thus, in most cases, this analysis automatically adjusts for the lower use of government and benefits by illegal immigrants.

In a few isolated cases, the CPS data does not rely on a households' self-report of receipt of benefits but imputes receipt to all households who are apparently eligible based on income level. The most notable example of this practice is the Earned Income tax Credit. Since illegal immigrant households are not eligible for the EITC, the CPS procedure assigns EITC benefits to illegal immigrant households which have not, in fact, been received by those households. To compensate for this mis-allocation of benefits, my analysis reduces the EITC benefits received by low-skill immigrant households by the portion of those households which are estimated to be illegal (roughly 40 percent).

Similarly, the CPS assumes all laborers work "on the books" and pay taxes owed. CPS therefore imputes federal and state income taxes and FICA taxes based on household earnings. But most analyses assume that some 45 percent of illegal immigrants work "off the books", paying neither individual income nor FICA taxes.[15] The present analysis adjusts the estimated income and FICA taxes paid by low-skill immigrant households downward slightly to adjust for the "off the books" labor of low-skill illegal immigrants.

The Declining Education Levels of Immigrants

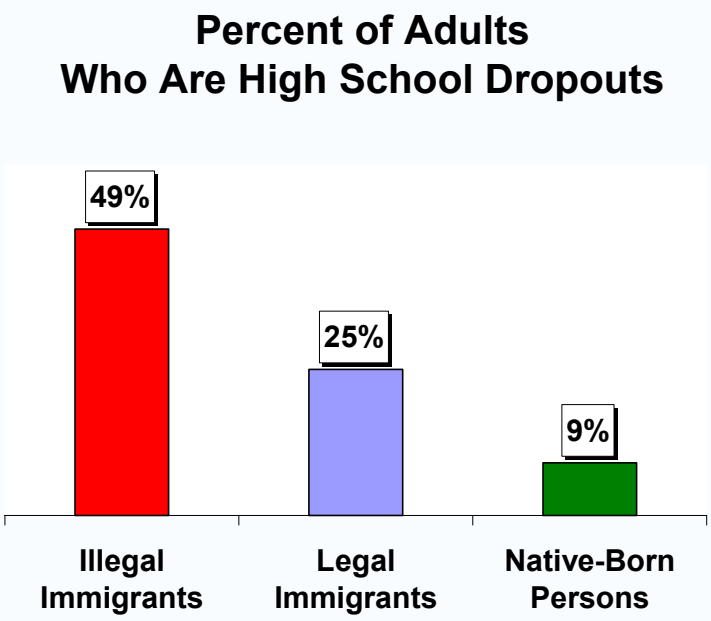
Current immigrants (both legal and illegal) have very low education levels relative to the non-immigrant U.S. population. As Chart 1 shows, some 50 percent, and

[14] Information provided by Steven A. Camarota of the Center for Immigration Studies

[15] Randy Capp, Everett Henderson, Jeffry S. Passel, and Michael Fix, *Civic contributions Taxes Paid by Immigrant in the Washington, DC Metro Area,*The Urban Institute, May 2006, footnote 3 on page 6. http://www.urban.org/UploadedPDF/411338_civic_contributions.pdf; Jeffrey S. Passel, Rebecca L. Clark, *Immigrants in New York: Their Legal Status, Income and Taxes,* Urban Institute, 1998, http://www.urban.org/publications/407432.html. Steve Camarota, *The High Cost of Low Skill Labor,* Center for Immigration Studies, op.cit.

perhaps as many as 60 percent, of illegal immigrant adults lack a high school degree.[16] Among legal immigrants the situation is better, but a quarter still lack a high school diploma. Overall, a third of immigrant households are headed by individuals without a high school degree. By contrast, only nine percent of non-immigrant adults lack a high school degree. The current immigrant population, thus, contains a disproportionate share of poorly educated individuals. These individuals will tend to have low wages, pay little in taxes and receive above average levels of government benefits and services.

Chart 1



Source: Pew Hispanic Center

There is a common misconception that the low education levels of recent immigrants is part of a long standing historical pattern, and that the U.S. has always brought in immigrants who were poorly educated relative to the native born population. Historically, this was not the case. For example, in 1960, recent immigrants were no more likely than were non-immigrants to lack a high school degree. By contrast, in1998, recent immigrants were almost four times more likely to lack a high school degree than were non-immigrants.[17]

As the relative education level of immigrants fell so did their relative wage levels. In 1960, the average immigrant male in the U.S. actually earned more than the average non-immigrant man. As the relative education levels of subsequent waves of immigrants

[16] Passel, 2005, op.cit. and Camarota, op.cit.
[17] George J. Borjas, *Heaven's Door: Immigration Policy and the American Economy,* Princeton New Jersey, Princeton University Press, 1999, p. 27.

fell, so did relative wages. By 1998, the average immigrant earned 23 percent less than the average non-immigrant.[18]

Recent waves of immigrants are disproportionately low-skilled because of two factors. For years, the U.S. has had a permissive policy concerning illegal immigration: the 2000 mile border with Mexico has remained porous and the law prohibiting the hiring of illegal immigrants has not been enforced. This encourages a disproportionate flow of low-skill immigrants because few college educated workers are willing to undertake the risks and hardships associated with crossing the southwest U.S. deserts illegally. Second, the legal immigration system gives priority to "family reunification" and kinship ties rather than skills; this focus also significantly contributes to the inflow of low-skill immigrants into the U.S.

Characteristics of Low Skill Immigrant Households

In 2004, there were 4.5 million households in the U.S. headed by immigrants who lacked a high school degree (or low-skill immigrant households). These households contained 15.9 million persons or roughly five percent of the U.S. population. Low-skill immigrant households had, on average, more persons (3.6 per household) and more children (1.2 per household) when compared to households headed by persons with a high school degree or more (with 2.6 persons and .06 children per households). Low-skill immigrant households have roughly the same number of workers per household as better educated households, but the average annual earnings per worker in low-skill immigrant households ($18,490) was roughly half the earnings per worker in households headed by persons with a high school degree or better ($38,713).

Low wage levels in low-skill immigrant households lead to high levels of poverty: over 30 percent of persons living in low-skill immigrant households were poor in 2004 compared to overall poverty rate of 12.7 percent in the U.S. population.

Costs of Benefits and Services for Low skill immigrant households

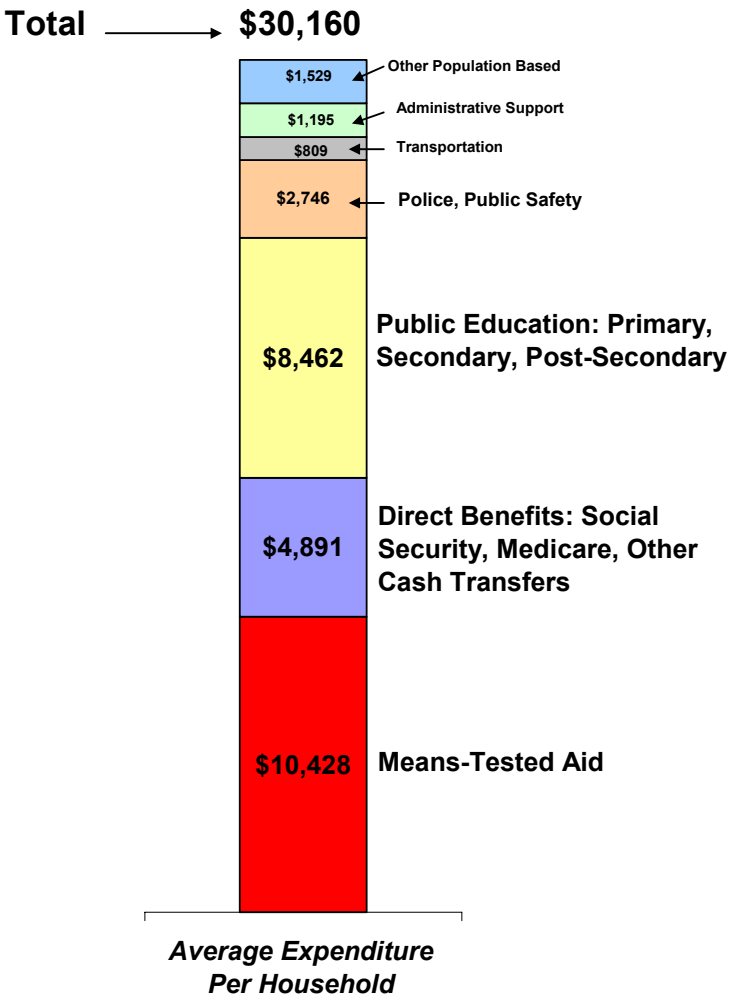
Overall, households headed by immigrants without a high school diploma (or low-skill immigrant households) received an average of $30,160 per household in direct benefits, means-tested benefits, education, and population-based services in FY 2004.

Chart 2 gives a more detailed breakdown of the immediate benefits and services received by low-skill immigrant households. Means-tested aid came to $10,428 per household, while direct benefits (mainly Social Security and Medicare) amounted to $4,891. Education spending on behalf of these households averaged $8,462 per household, while spending on police, fire, and public safety came to $2,746 per household. Transportation added another $809, while administrative support services cost $1,195. Miscellaneous population-based services added a final $1,529.

[18] Ibid., p. 8

Chart 2

Government Expenditures for Immediate Benefits and Services for Households Headed by Immigrants Without A High School Diploma



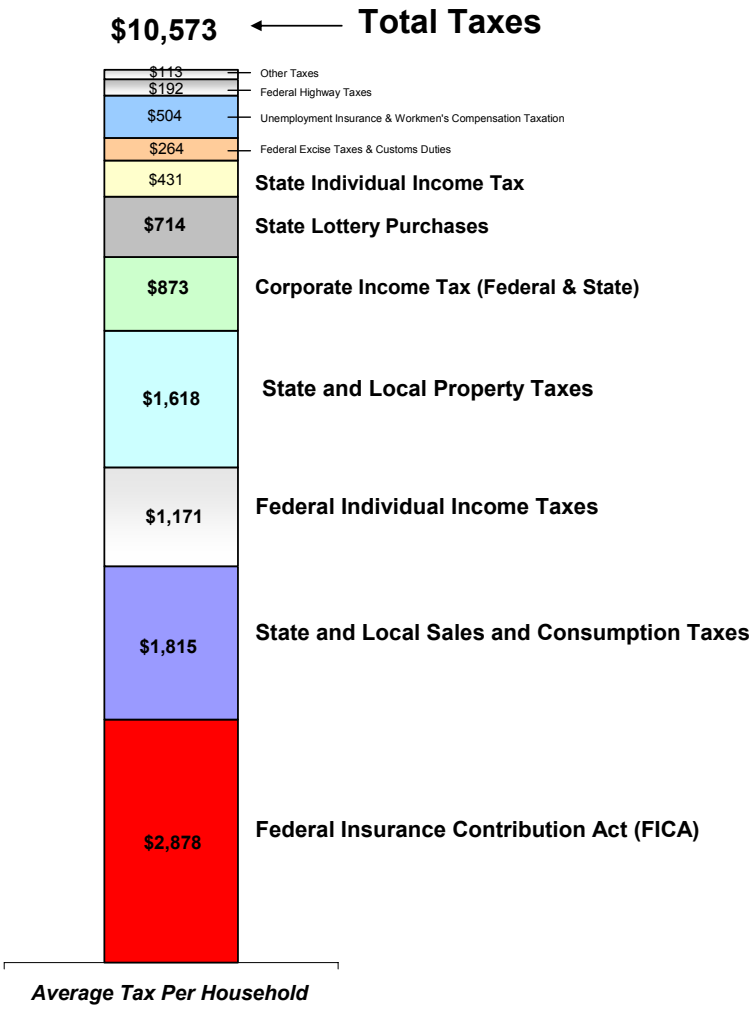
It is important to note that the costs of benefits and services outlined in Chart 2 are a composite average of all low-skill immigrant households. They represent the total costs of benefits and services received by all low-skill immigrant households divided by the number of such households. It is unlikely that any single household would receive this exact package of benefits; for example, it is rare for a household to receive Social Security benefits and primary and secondary education services at the same time. Nonetheless, the figures are an accurate portrayal of the governmental costs of low-skill immigrant households as a group. When combined with similar data on taxes paid, they enable an assessment of the fiscal status of such households as a group and their impact on other taxpayers.

Taxes and Revenues Paid by Low skill immigrant households

As Chart 3 shows, total federal, state, and local taxes paid by low-skill immigrant households came to $10,573 per household in 2004. Federal and state individual income taxes comprised only 15 percent of total taxes paid. Instead, taxes on consumption and employment produced the bulk of the tax burden for low-skill immigrant households.

Chart 3

Taxes Paid by Households Headed by Immigrants Without at High School Diploma



The single largest tax payment was $2,878 per household in Federal Insurance Contribution Act (FICA) tax. (Workers were assumed to pay both the employee and employer share of FICA taxes.) On average, low-skill immigrant households paid $1,815 in state and local sales and consumption taxes. The analysis assumed that a significant portion of property taxes on rental and business properties was passed through to renters and consumers; this contributed to a $1,618 property tax burden for the average low-skill household. The analysis also assumed that 70 percent of corporate income taxes fell on workers; this contributed to an average $873 corporate tax burden for low-skill immigrant households. Low-skill immigrant households are frequent participants in state lotteries, with an estimated average purchase of $714 in lottery tickets per household in 2004.

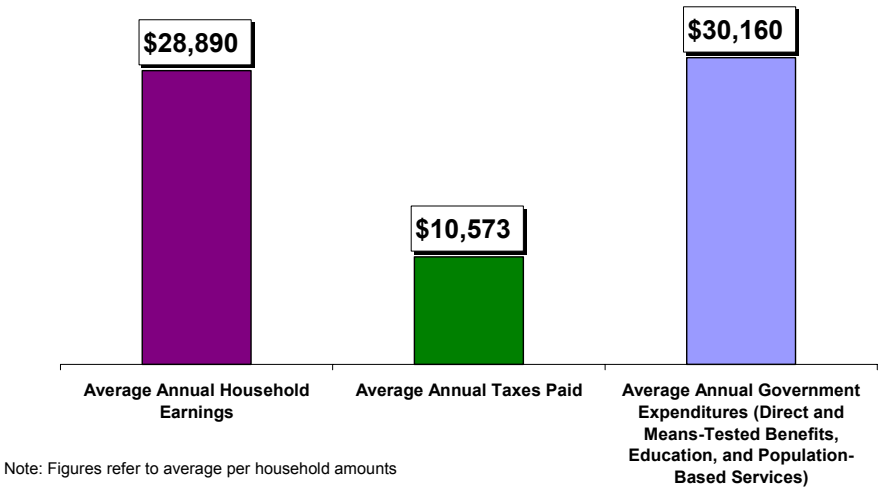
Balance of Taxes and Benefits

On average, low-skill immigrant households received $30,160 per household in immediate government benefits and services in FY 2004, including direct benefits, means-tested benefits, education, and population-based services. By contrast, low-skill immigrant households paid only $10,573 in taxes. Thus, low-skill immigrant households received nearly three dollars in benefits and services for each dollar in taxes paid.

Strikingly, as Chart 4 shows, low-skill immigrant households in FY 2004 had average earnings of $28,890 per household; thus, the average cost of government benefits and services received by these households not only exceeded the taxes paid by these households, but actually exceeded the average earned income of these households.

Chart 4

Taxes Paid and Benefits Received: Households Headed by Immigrants Without a High School Diploma



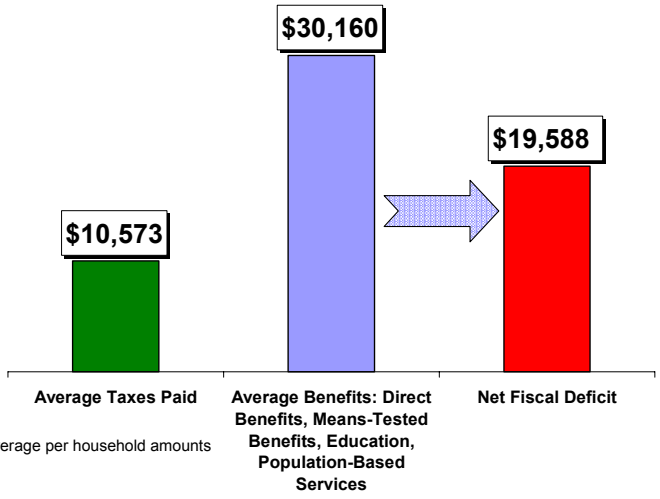
Note: Figures refer to average per household amounts

Net Annual Fiscal Deficit

The net fiscal deficit of a household equals the cost of benefits and services received minus taxes paid. As Chart 5 shows, if the costs of direct and means-tested benefits, education, and population-based services were counted, the average low-skill household had a fiscal deficit of $19,588 (expenditures of $30,160 minus $10,573 in taxes).

Chart 5

Dropout Households Receive More Than Three Dollars in Benefits for Every Dollar Paid in Taxes

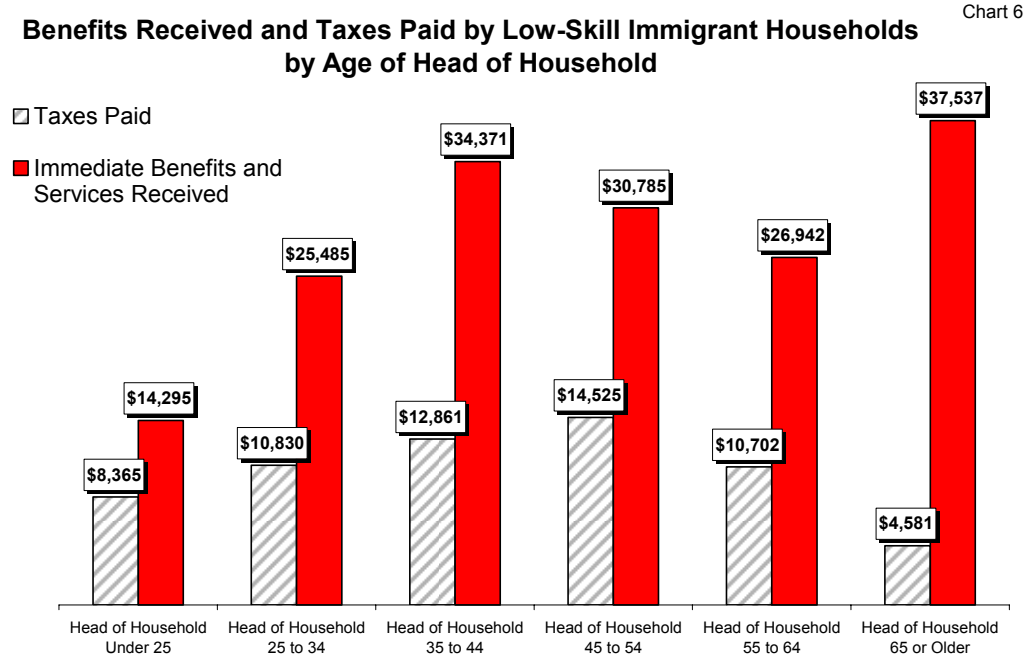


Note: Figures refer to average per household amounts

Age Distribution of Benefits and Taxes among Low Skill Immigrants

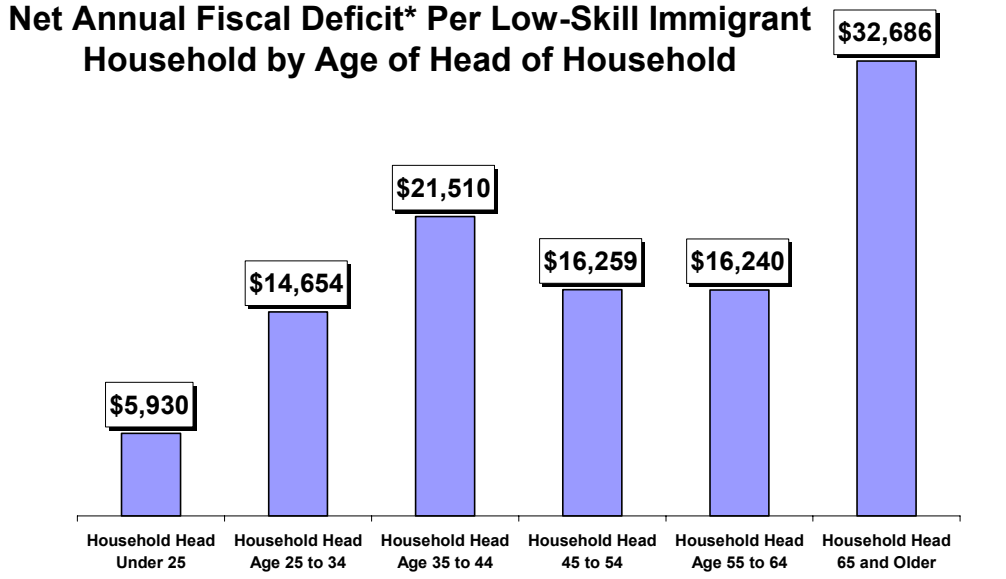
Charts 6 and 7 separate the 4.5 million low-skill immigrant households into six categories based on the age of the immigrant head of household. The benefits levels on Chart 6 include direct benefits, means-tested benefits, public education and population-based services; these benefits start at a moderate level of $14,295 for households headed by immigrants under 25 then rise sharply to $34,371 for households with heads between 35 and 44. This increase is driven by a rise in the number of children in each home. As the head of household ages over 45 , the number of children in the home falls; benefits dip slightly, and then shoot up sharply to $37,537 after the household head reaches 65.

Chart 6



Note: Immediate Benefits include Direct and Means-Tested Benefits, Public Education, and Population-Based Services

Chart 7



*Net Fiscal Deficit Equals Immediate Benefits and Services Received Minus Taxes Paid

Note: Immediate Benefits include Direct Benefits, Means-Tested Benefits, Public Education and Population-Based Services

Tax payments vary less by the age of the householder than do benefits, rising slowly to a peak for immigrant householders in their late 40'sand early 50's, and then dropping sharply after retirement.

The critical fact shown in Chart 6 is that for each age category, the benefits received by low-skill immigrant households exceed the taxes paid. At all ages, the average low-skill immigrant household pays in less in taxes than it takes out in benefits.

The gap between benefits and taxes is least for households with heads under age 25 but even these young households receive $1.70 in benefits and services for each $1.00 in taxes paid. In all other age categories, low-skill immigrant households receive at least two dollars in benefits for each dollar in taxes paid. Among elderly low-skill household, more than eight dollars in benefits are received for each dollar in taxes paid.

These figures belie the notion that government can relieve financial strains in Social Security and other programs simply importing younger immigrant workers. The fiscal impact of an immigrant worker is determined far more by skill level than by age. Low-skill immigrant workers impose a net drain on government finance as soon as they enter the country and add significantly to those cost every year they remain. Actually, older low-skill immigrants are less costly to the U.S. taxpayer since they will be a burden on the fisc for a shorter period of time.

Chart 7 shows the net fiscal deficits (benefits minus taxes) for each age category. Fiscal deficits rise from $5,930 per year for young immigrant households, to between $16,000 and $20,000 in middle age and then surge up to $32, 686 for elderly low-skill households.

Net Lifetime Costs

Receiving, on average, $19,588 more in immediate benefits than they pay in taxes each year, low-skill immigrant households impose substantial long-term costs on the U.S. taxpayer. Assuming an average 60-year adult life span for heads of household, [19]the average lifetime costs to the taxpayer will be nearly $1.2 million for each low-skill household, net of any taxes paid.[20]

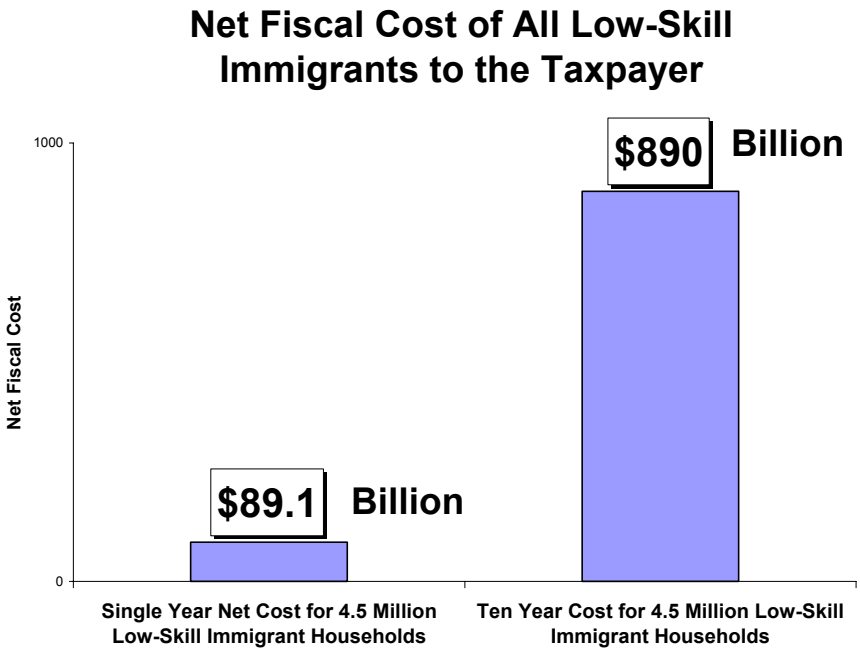
Aggregate Annual Net Fiscal Costs

In 2004, there were 4.54 million low-skill immigrant households. As shown in Chart 8, the average net fiscal deficit per household was $19,588. This means that the total annual fiscal deficit (total benefits received minus total taxes paid) for all 4.54 million low-skill immigrant households together equaled $89.1 billion (the deficit of

[19] This calculation assumes the low skill immigrant remains in the U.S. for his full adult life.
[20] An alternative approach to calculating life time fiscal costs is to multiple the average fiscal cost per age category by the expected survival rate of householders from age 25 on; this allows the number of households to shrink slowly as the heads of household age. This approach also yields a net life-time fiscal burden of around $1.2 million. Figures are available upon request.

$19,588 per household times 4.54 million households). This sum includes direct and means-tested benefits, education, and population-based services. Over the next ten years, the net cost (benefits minus taxes) to the taxpayer of all low-skill immigrant households will approach one trillion dollars.

Chart 8



Note: Net Fiscal Cost equals the cost of Direct Benefits, Means-Tested Benefits, Public Education, and Population-Based Services received minus Taxes Paid

Conclusion

Current immigration practices, both legal and illegal, operate like a system of trans-national welfare outreach bringing millions of fiscally dependent individuals into the U.S. This policy needs to be changed. In the future, U.S. immigration policy should encourage high-skill immigration and strictly limit low-skill immigration. In general, government policy should limit immigration to those who will be net fiscal contributors, avoiding those who will increase poverty and impose new costs on overburdened U.S. taxpayers.

It is sometimes argued that since higher-skill immigrants are a net fiscal plus for the U.S. taxpayers while low-skill immigrants are a net loss, the two cancel each other out and therefore no problem exists. This is like a stock broker advising a client to buy two stocks, one which will make money and another that will lose money. Obviously, it would be better to purchase only the stock that will be profitable and avoid the money losing stock entirely. Similarly, low-skill immigrants increase poverty in the U.S. and impose a burden on taxpayers that should be avoided.

Current legislative proposals that would grant amnesty to illegal immigrants and increase future low-skill immigration would represent the largest expansion of the welfare state in 30 years. Such proposals would increase poverty in the U.S. in the short and long term and dramatically increase the burden on U.S. taxpayers.

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