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POLICY BRIEF

# Dollars without Sense: Underestimating the Value of Less-Educated Workers

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*A recent report from the Heritage Foundation is one in a long line of deeply flawed economic analyses which claim to estimate the contributions and "costs" of workers based solely on the amount of taxes they pay and the value of the public services they utilize.*

Opponents of immigration like to portray immigrants, especially less-educated immigrants who work in less-skilled jobs, as a drain on the U.S. economy. According to this line of thinking, if the taxes paid by immigrants do not cover the cost of the public services and benefits they receive, then immigrants are draining the public treasury and, ostensibly, the economy as a whole. However, this kind of simplistic fiscal arithmetic does not accurately gauge the impact that workers of any skill level have on the economy. It also is a dehumanizing portrayal of all workers, foreign-born and native-born alike, who labor for low wages in physically demanding jobs that are essential to the economic health of the nation.

## Flawed Analysis and Inflated Statistics

A prime example of a flawed analysis using this narrow fiscal accounting is an April 2007 report from the Heritage Foundation which claims to demonstrate that "low-skill" households headed by individuals with less than a high-school diploma impose a large fiscal burden on the majority of U.S. taxpayers. The Heritage report is, for the most part, aimed at the native-born, who comprise about two-thirds of all adults age 25 and older in the United States without a high-school diploma.[1] But it also is a backhanded slap at immigrants and immigration reform in that the authors repeatedly warn that any changes in immigration policy which allow more "low-skill immigrants" into the country "would dramatically increase the future fiscal burden to taxpayers."[2] The Heritage report relies on inflated statistics and highly dubious assumptions to arrive at these conclusions. Missing from the report is any discussion of the high demand for workers to fill less-skilled jobs in the U.S. economy, or the forces that create and sustain poverty, or the public policies that might actually alleviate poverty and raise wages. In effect, the report disparages both native-born and foreign-born low-wage workers for not pulling themselves up by their own bootstraps.

The report's analysis begins by adding up how much was spent by federal, state, and local governments on various public benefits and programs in Fiscal Year (FY) 2004. The report then apportions a share of those expenses to low-skill households based either on the amount that these households actually "cost" (in public assistance, for instance) or in proportion to their share of the total U.S. population. Finally, the cost of government expenditures presumably attributable to low-skill households is compared to how much those households paid in federal, state, and local taxes. But in order to inflate the costs of the government services and benefits allegedly received by low-skill households, the report throws in just about everything but the kitchen sink.

## Immigration and Public Benefits

As one would expect, the report calculates the cost of "direct benefit programs," principally Social Security and Medicare, and "means-tested benefits"—such as Medicaid, the State Children's Health Insurance Program (SCHIP), Temporary Assistance to Needy Families (TANF), Supplemental Security Income (SSI), and food stamps—that were utilized by some low-skill households in FY 2004. According to the report, the average low-skill household consumed $21,989 in such benefits: $10,026 in direct benefits (including $5,811 for Social Security and $3,800 for Medicare) and $11,963 in means-tested benefits (including $6,381 for Medicaid and SCHIP, $900 for housing assistance, $865 for SSI, and $695 for food stamps).[3] At the same time, low-skill households paid an average of $9,689 each in federal, state, and local taxes. From the report's perspective, the difference between the taxes paid and the direct and means-tested benefits received by each low-skill household, $12,300, is a net "cost" that is imposed on other taxpayers.[4]

The report conveniently neglects to mention that the vast majority of immigrants are not eligible to receive any of these benefits for many years after their arrival in the United States, if ever. For instance, legal permanent residents (LPRs) must pay into the Social Security and Medicare systems for approximately 10 years before they are eligible to receive benefits when they retire. Unlike U.S. citizens, LPRs can not receive SSI until they have worked for approximately 10 years, and they are not eligible for SSI or other means-tested public benefits until 5 years after receiving their green cards.[5] The 12 million undocumented immigrants in the United States, who comprise nearly one-third of all immigrants in the country,[6] are not eligible for any kind of public benefits—ever. Even if undocumented immigrants were to receive legal status under one of the legislative proposals currently under discussion in Congress, they would not be eligible for green cards for 8 years and would then have to wait 5 years more before becoming eligible for public benefits. Attributing tens of thousands of dollars per year in public benefits to low-income immigrant households is therefore highly misleading.

## Questionable Accounting

The authors of the Heritage report are not content to vilify low-income families for sometimes needing public assistance in order to keep their heads above water. The report also adds up the shares of even more government expenditures that are allegedly attributable to low-skill households: public primary, secondary, post-secondary, and vocational education; budgetary outlays for roads, parks, sewers, and food safety and health inspections; military spending and government expenditures for veterans programs, international affairs, and scientific research; and even interest payments on government debt. As a result of this creative accounting, the Heritage report concludes that the average low-skill household received up to $33,395 more in government benefits and services than it paid in taxes in FY 2004.[7]

This kind of analysis reflects a fundamental misunderstanding of the nature of many government expenditures. The report dismisses the notion that some government spending truly represents a "social investment" that can not be counted as a cost attributable to any particular group of people.[8] However, investments in public infrastructure, public health, and public education are necessary to maintain the strength and competitiveness of the U.S. economy and U.S. workforce as a whole, to the benefit of all. Moreover, children whose educations are counted in the Heritage report as "costs" attributable to their parents grow up to become tax-paying adults who often earn higher incomes than their parents. This is especially true among the children of immigrants.

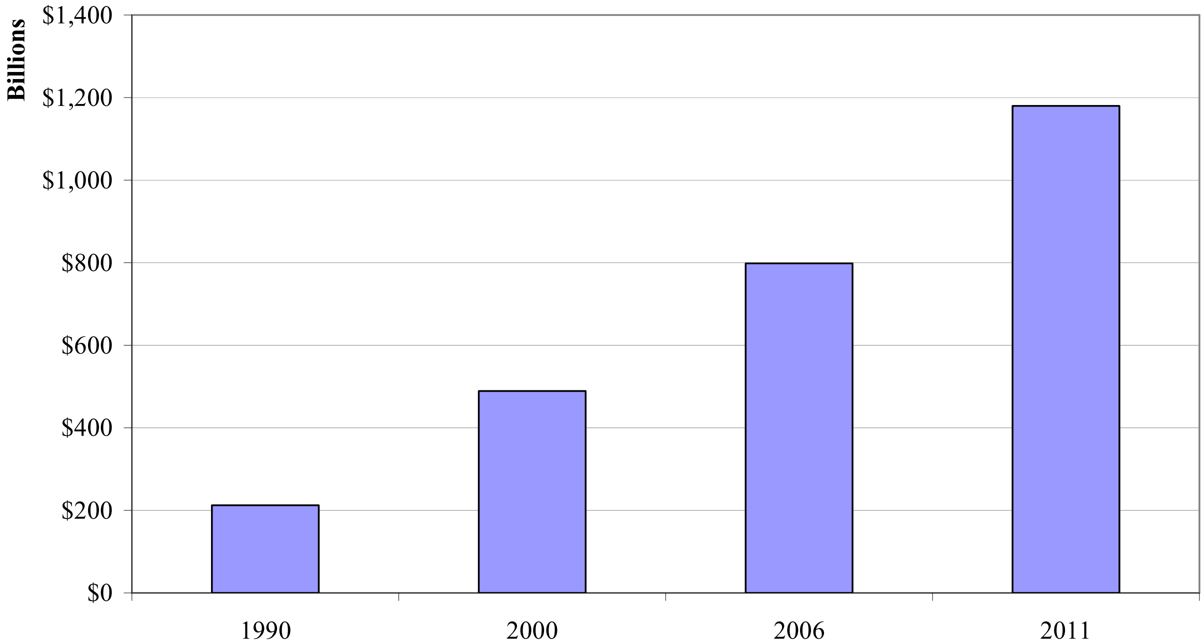
The report also attributes to low-income households the cost of political decisions over which they have no control. For instance, in the Heritage report's accounting, low-income households are responsible for a share of the hundreds of billions of dollars appropriated for the war in Iraq. They also are responsible for a portion of the interest payments on the national debt stemming from the enactment in recent years of tax cuts for corporations and wealthy individuals. From the report's perspective, even immigrants who have just arrived in the United States are presumably saddled with some of these costs the minute their feet touch the ground. Assigning costs such as these to low-income families in general, and low-income immigrant families in particular, is dubious to say the least.

## Missing the Big Picture

Creative accounting aside, the simplistic "fiscal distribution analysis"[9] on which the Heritage report is based does not come close to accurately gauging the impact of any group on the U.S. economy as a whole. A comparison of the taxes that people pay and the public benefits and services they consume at a particular point in time does not measure the larger economic impact that they have through their consumer purchasing power and entrepreneurship, both of which create new jobs. Nor does it account for the upward economic mobility that many low-income families experience from generation to generation, particularly immigrant families. It is for these reasons that, according to Gerald D. Jaynes, Professor of Economics and African American Studies at Yale University, "analyses that purport to measure the benefits of immigration by comparing taxes paid by immigrants to the cost of public services they consume are egregiously incompetent and misleading."[10]

Consider, for instance, the substantial economic contributions of Hispanics that have nothing to do with their tax payments. Among Hispanics age 25 and older, 41 percent lack a high-school diploma and 58 percent are foreign-born.[11] Yet, according to the Selig Center for Economic Growth at the University of Georgia, Hispanic buying power totaled $798 billion in 2006 and is expected to increase to $1.2 trillion by 2011 {Figure 1}.[12] Moreover, the U.S. Census Bureau estimates that in 2002, 1.6 million Hispanic-owned firms provided jobs to 1.5 million employees, had receipts of $222 billion, and generated payroll of $36.7 billion.[13] These hundreds of billions of dollars in purchasing power and entrepreneurship are enormous contributions to the U.S. economy that are not captured in the simple arithmetic of a taxes-paid vs. benefits-received model.

**Figure 1: U.S. Hispanic Buying Power, 1990-2011**




Source: Jeffrey M. Humphreys, "The multicultural economy 2006," *Georgia Business and Economic Conditions* 66(3), Third Quarter 2006: 10.

In addition, the Heritage report claims that estimates of upward educational mobility tend to be "exaggerated."[14] However, numerous studies have demonstrated just the opposite to be true, particularly among Hispanics and immigrants. According to a RAND Corporation study, "2nd and 3rd-generation Hispanic men have made great strides in closing their economic gaps with native whites. The reason is simple: each successive generation has been able to close the schooling gap with native whites which then has been translated into generational progress in incomes. Each new Latino generation not only has had higher incomes than their forefathers, but their economic status converged toward the white men with whom they competed."[15] A study by sociologist Richard Alba found that each generation of Mexican-origin individuals born in the United States improved upon their parents' educational attainment by roughly 2.5 years.[16] And an Urban Institute study found that "[b]y the second generation, immigrants overall end up doing as well as, or in some instances, better than third generation non-Hispanic white natives in terms of their educational attainment, labor force participation, wages, and household income."[17]

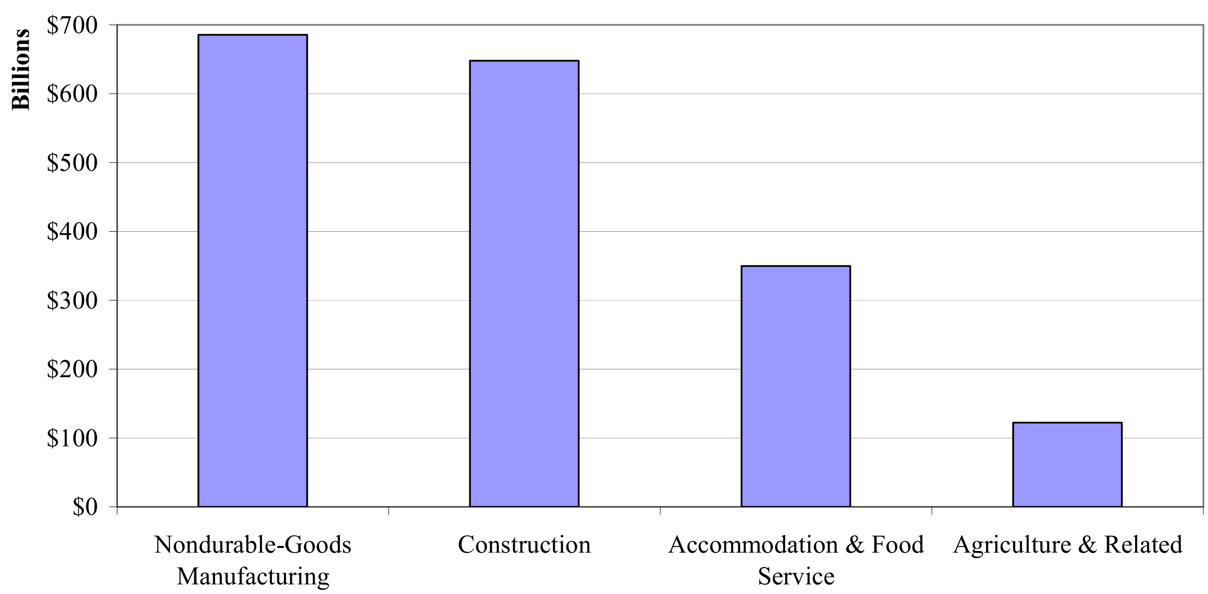
## Ignoring Demographic Reality

In portraying less-educated people in the United States as fiscal freeloaders, the Heritage report fails to mention that the U.S. economy generates a high demand for workers to fill less-skilled jobs requiring little formal education; particularly service jobs such as food preparation and serving, and building and grounds cleaning and maintenance. According to the Bureau of Labor Statistics, total employment in service occupations will increase by 19 percent between 2004 and 2014, second only to professional and related occupations.[18] Half of the 20 occupations expected to experience the greatest job growth will require only short-term on-the-job training.[19] Moreover, there will be about 25 million job openings (new jobs plus job turnover) for workers with a high-school diploma or less education during this period, amounting to 45 percent of all job openings.[20]

At the same time that the U.S. economy continues to produce less-skilled jobs, the native-born labor force is steadily growing older and better educated. The Bureau of Labor Statistics predicts that the labor force age 55 and over will grow by an average of 4.1 percent per year from 2004 to 2014, compared to a growth rate of 0.3 percent per year among workers age 25 to 54.[21] Moreover, the share of native-born adults age 25 and older with less than a high-school diploma dropped from about 23 percent in 1990 to 11 percent in 2006.[22] Despite the demographic challenges posed by these trends, the Heritage report offers no suggestions as to how the growing number of less-skilled jobs could be filled in the absence of immigrant workers without somehow persuading native-born workers with higher levels of education to forgo higher-skilled jobs in favor of work as busboys and janitors.

The Heritage report also overlooks the fact that many higher-income workers would not be earning higher incomes if not for the labor of their lower-wage counterparts. Workers with different levels of education and different skill sets complement, rather than compete with, each other in the labor market. Less-skilled workers increase the productivity, and therefore the wages, of higher-skilled workers.[23] In addition, the report fails to account for the value that is added to the economy as a whole by the industries in which less-skilled workers tend to be employed. For instance, according to estimates by the Department of Commerce, nondurable-goods manufacturing (textiles, apparel, etc.) added $685.5 billion to the U.S. Gross Domestic Product (GDP) in 2006, construction added $647.9 billion, accommodation and food services contributed $349.9 billion, and agriculture and related industries added $122.4 billion {Figure 2}.[24]

**Figure 2: Value Added to U.S. GDP by Industries Employing Large Numbers of Less-Educated Workers**




Source: U.S. Department of Commerce, Bureau of Economic Analysis, Industry Economic Accounts, Value Added by Industry (http://www.bea.gov/industry/gpotables/).

## Immigration Innuendo

To the extent that the Heritage report mentions immigration at all, it is to raise the specter of immigration reform unleashing a flood of low-wage immigrants into the U.S. labor market and dramatically increasing the fiscal burden of U.S. taxpayers. The authors support this grim scenario by citing another Heritage report from May 2006 that presented inflated estimates of the increase in legal immigration that allegedly would result if the Senate's "Comprehensive Immigration Reform Act of 2006" (S. 2611) were to become law. The 2006 report claimed that the bill would allow anywhere from 66 million to 217 million new immigrants into the United States over the next 20 years. The outlandishness of these projections is evident in the fact that the estimate of 217 million is 70 million more than the combined populations of Mexico, Belize, Guatemala, Honduras, El Salvador, Nicaragua, Costa Rica, and Panama.[25] The 2006 report arrived at these estimates largely through statistical slight of hand in which many categories of immigrants were double counted.[26]

In adding up the fiscal "costs" of immigrants, both Heritage reports overlook that immigrants are, on average, less costly than the native-born on a number of budgetary fronts. For instance, immigrants are less likely to receive public benefits such as TANF, Medicaid, and SCHIP. A report from the Center on Budget and Policy Priorities found that the "percentage of low-income noncitizen children who participate in Medicaid or SCHIP fell from 28.6 percent in 1996 to 24.8 percent in 2001." Similarly, "participation by noncitizens in the Food Stamp Program declined 64 percent between 1996 and 2000."[27] Immigrants also are less likely to utilize hospital emergency rooms.[28] A report by the University of California–Los Angeles and the Mexican government found that under 10 percent of recent Mexican immigrants (legal and undocumented) who had been in the United States for fewer than ten years reported using an emergency room in 2000, compared to 20 percent of native-born whites and Mexican Americans.[29] And immigrants are less likely to be in prison at taxpayer expense. Among men age 18-39 (who comprise the vast majority of the prison population), 0.7 percent of the foreign-born were behind bars in 2000, compared to 3.5 percent of the native-born.[30]

The Heritage report also fails to consider the fiscal costs imposed on U.S. taxpayers by many presumably "high-skill" individuals with higher educations. As the accounting frauds and tax scandals perpetrated in recent years by executives at corporations like Enron, WorldCom, and Adelphia Communications illustrate, very wealthy, educated people often exact enormous costs on the U.S. economy and society. Moreover, many wealthy individuals pay relatively little in taxes as a result of loopholes in the tax code. And tens of billions in workers' tax dollars flow to corporations every year through government subsidies, bailouts, and other forms of "corporate welfare."

## Conclusion

The conclusions of the Heritage report notwithstanding, workers who earn low wages are not to blame for the fact that the United States still produces less-skilled jobs, or does not have wage and labor laws sufficient to keep all workers above the poverty line, or does not have a public-education system that prevents students from falling through the cracks before earning a high-school diploma. Yet the authors of the Heritage report seem to suggest that all workers who have not finished high school, be they native- or foreign-born, are nothing more than a drag on the U.S. economy. But a person's value, economic or otherwise, cannot be measured or predicted by his or her level of formal education. There are many examples of less-educated workers who have defied all expectations and contributed enormously to our economy and society. Notable examples include self-made billionaires David Murdoch and Kirk

Kerkorian, businessmen Ray Kroc and Dave Thomas (the founders of McDonald's and Wendy's, respectively), and newscaster Peter Jennings—all of whom were high-school dropouts.

In a telling statement, the authors of the Heritage report maintain that, "to make the average low-skill household fiscally neutral (taxes paid equaling immediate benefits received plus interest on government debt), it would be necessary to eliminate Social Security, Medicare, all 60 means-tested aid programs and cut the cost of public education in half."[31] They do not even consider options like implementing progressive reforms to the tax code, or raising the minimum wage, or investing more in public education and community development programs to lower drop-out rates. Rather, the authors of the Heritage report seem to view U.S. workers without a high-school diploma as dead weight that should, ideally, be cut loose. This kind of perspective is callously inhumane, is insulting to the millions of native-born and foreign-born workers who fill less-skilled but economically important jobs, and reflects a basic misunderstanding of the relationship between immigration and the U.S. economy.

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**Endnotes**

[1] Current Population Survey 2006, Detailed Tables, Table 10: Educational Attainment of the Population 25 Years and Over, by Citizenship, Nativity and Period of Entry, Age, Sex, Race, and Hispanic Origin: 2006.
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