

Heritage Special Report

SR-14
MAY 21, 2007



Published by The Heritage Foundation

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Executive Summary

Each year, families and individuals pay taxes to the government and receive back a wide variety of services and benefits. When the benefits and services received by one group exceed the taxes paid, a distributional deficit occurs, and other groups must pay for the services and benefits of the group in deficit. Each year, government is involved in a large-scale transfer of resources between different social groups.

This paper provides a fiscal distribution analysis of households headed by immigrants without a high school diploma. The report refers to these households as “low-skill immigrant households.” In fiscal year (FY) 2004 there were around 4.5 million low-skill immigrant households in the United States, containing 15.9 million persons, roughly 5 percent of the U.S. population. About 60 percent of these low-skill immigrant households were headed by legal immigrants and 40 percent by illegal immigrants

The analysis 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, federal, state, and local expenditures combined amounted to \$3.75 trillion. Government expenditures can be divided into six categories:

- **Direct benefits**, which include Social Security, Medicare, and a few smaller transfer programs;
- **Means-tested benefits**, including cash, food, housing, social services, and medical care for poor and near-poor individuals;
- **Public educational services**, which include the governmental cost of primary, secondary, vocational, and post-secondary education;
- **Population-based services**, which are government services made available to a general community, including police and fire protection, highways, sewers, food safety inspection, and parks.

These first four categories can be termed “immediate benefits and services.” Entry of legal or illegal immigrants into the U.S. will generally cause expenditures in these categories to rise. Two additional spending categories 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.

Entry of immigrants into the U.S. will generally not cause expenditures in these last two categories to increase, at least in the short term. Therefore, these categories are not included in the calculations on the fiscal burden imposed by low-skill immigrant households presented in this paper.

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).

At \$19,588, the average annual fiscal deficit for low-skill immigrant households was nearly twice the amount of taxes paid. In order for the average low-skill household to be fiscally solvent (taxes paid equaling immediate benefits

received), it would be necessary to eliminate Social Security and Medicare, all means-tested welfare, and to cut expenditures on public education roughly in half.

American families often are net tax payers during working age and net tax takers (benefits exceeding taxes) during retirement. This is not the case for low-skill immigrant households; in these households benefits substantially exceed taxes at every age level. Consequently, 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 9 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 2,000-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.

Understanding of the fiscal consequences of low-skill immigration is impeded by a lack of understanding of the scope of government financial redistribution within U.S. society. It is a common misperception that the only individuals who are fiscally dependent (receiving more in benefits than they pay in taxes) are welfare recipients who perform little or no work, and that as long as an individual works regularly he must be a net tax producer (paying more in taxes than his family receives in benefits).

In reality, the present welfare system is designed primarily to provide financial support to low-income working families. Moreover, welfare is only a modest part of the overall system of financial redistribution operated by the government. Current government policies provide extensive free or heavily subsidized aid to low-skill families (both immigrant and non-immigrant) through welfare, Social Security, Medicare, public education, and many other services. At the same time, government requires these families to pay little in taxes. This very expensive assistance to the least advantaged American families has become accepted as our mutual responsibility for one another, but it is fiscally unsustainable to apply this system of lavish income redistribution to an inflow of millions of poorly educated immigrants.

Finally, 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 stockbroker advising a client to buy two stocks, one that 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.

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.

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Similarly, low-skill immigrants increase poverty in the U.S. and impose a burden on taxpayers that should be avoided.

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.

Recent proposed legislation in the Senate will do exactly the opposite.² By granting amnesty to illegal immigrants (who are overwhelmingly low skilled) and creating massive new “guest worker” programs that would bring millions of additional low-skill families into the nation, such legislation, if enacted, would impose massive costs on the U.S. taxpayer.

Introduction

Each year, families and individuals pay taxes to the government and receive back a wide variety of services and benefits. A fiscal deficit occurs when the benefits and services received by one group exceed the taxes paid. When such a deficit occurs, other groups must pay for the services and benefits of the group in deficit. Each year, government is involved in a large-scale transfer of resources between different social groups.

Fiscal distribution analysis measures the distribution of total government benefits and taxes in society. It provides an assessment of the magnitude of government transfers between groups. This paper provides a fiscal distribution analysis of households headed by immigrants without a high school diploma. It measures the total benefits and services received by this group and 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.

The first step in an analysis of the distribution of benefits and taxes is to count accurately the cost of all benefits and services provided by the government. The size and cost of government is far larger than many people imagine. In fiscal year (FY) 2004, the expenditures of the federal government were \$2.3 trillion. In the same year, expenditures of state and local governments were \$1.45 trillion. The combined value of federal, state, and local expenditures in FY 2004 was \$3.75 trillion.³

The sum of \$3.75 trillion is so large that it is difficult to comprehend. One way to grasp the size of government more readily is to calculate average expenditures per household. In 2004, there were some 115 million households in the U.S.⁴ (This figure includes multi-person families and single persons living alone.) The average cost of government spending thus amounted to \$32,707 per household across the U.S. population.⁵

The \$3.75 trillion in government expenditure is not free, but must be paid for by taxing or borrowing economic resources from Americans or by borrowing from abroad. In general, government expenditures are funded by taxes and fees. In FY 2004, federal taxes amounted to \$1.82 trillion. State and local taxes and related revenues amounted to \$1.6 trillion.⁶ Together, federal, state, and local taxes amounted to \$3.43 trillion. At \$3.43 trillion, taxes and related revenues came to 91 percent of the \$3.75 trillion in expenditures. The gap between taxes and spending was financed by government borrowing.

2. The Comprehensive Immigration Reform Act (S. 2611), introduced May 2006.

3. See Appendix Tables 1, 2A, 2B, and 2C.

4. This figure includes persons in nursing homes. See Appendix A.

5. In measuring the distribution of benefits and services, this paper will count the value of each benefit and service as equal to the cost borne by the taxpayer to deliver it. The cost of any benefit to the taxpayer does not necessarily equal the subjective value the beneficiary may place upon the benefit. For example, if the food stamp program provides a family \$400 per month in food stamp benefits, the family itself may value the food stamps at more or less than \$400. Similarly, if a child receives public education costing \$10,000 per pupil per year, the child's family may subjectively value those education services as worth more or less than \$10,000. While the question of recipient valuation of government benefits is an interesting one, this paper is concerned with the basic question of the distribution of benefits valued according to their costs to taxpayers.

6. This figure includes property income earned by the government such as sale of assets or interest earned on assets.

Types of Government Expenditure

After the full cost of government benefits and services has been determined, the next step in the analysis of the distribution of benefits and taxes is to determine the beneficiaries of specific government programs. Some programs, such as Social Security, neatly parcel out benefits to specific individuals. With programs such as these, it is relatively easy to determine the identity of the beneficiary and the cost of the benefit provided. At the opposite extreme, other government programs (for example, medical research at the National Institutes of Health) do not neatly parcel out benefits to individuals. Determining the proper allocation of the benefits of that type of program is more difficult.

To ascertain most accurately the distribution of government benefits and services, this study begins by dividing government expenditures into six categories: direct benefits, means-tested benefits, educational services, population-based services, interest and other financial obligations resulting from prior government activity, and pure public goods.

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.

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.)⁷ 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.⁸ 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.

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.) Overall, the U.S. spent \$564 billion on means-tested aid in FY 2004.⁹

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

8. Congressional Research Service, *Cash and Noncash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data, FY2002–FY2004*, March 27, 2006.

9. This spending figure excludes means-tested veterans programs and most means-tested education programs.

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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. In other cases, such as the Pell Grant program, the government in effect provides money to an eligible individual who then spends it on educational services.

Education is the single largest component of state and local government spending, absorbing roughly a third of all state and local expenditures. 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 service remains fixed while the population increases, a program will become “congested,” and the quality of service for users will deteriorate. Thus, the NAS uses the term “congestible goods” to describe population-based services.¹⁰ 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.

A sub-category of population-based services is government administrative support functions such as tax collections and legislative activities. Few taxpayers view tax collection as a government benefit; therefore, assigning the cost of this “benefit” appears problematic.

The solution to this dilemma is to conceptualize government activities into two categories: primary functions and secondary functions. Primary functions provide benefits directly to the public; they include direct and means-tested benefits, education, ordinary population-based services such as police and parks and public goods. By contrast, secondary or support functions do not provide direct benefits to the public but do provide necessary support services that enable the government to perform primary functions. For example, no one can receive food stamp benefits unless the government first collects taxes to fund the program. Secondary functions can thus be considered an inherent part of the “cost of production” of primary functions, and the benefits of secondary support functions can be allocated among the population in proportion to the allocation of benefits from government primary functions.

Government spent \$662 billion on population-based services in FY 2004. Of this amount, some \$546 billion went for ordinary services such as police and parks, and \$116 billion went for administrative support functions.

Interest and Other Financial Obligations Relating to Past Government Activities

Often, tax revenues are insufficient to pay for the full cost of government benefits and services. In that case, government will borrow money and accumulate debt. In subsequent years, interest payments must be paid to those who lent the government money. Interest payments for the government debt are in fact partial payments for past government benefits and services that were not fully paid for at the time delivery.

Similarly, government employees deliver services to the public; part of the cost of the service is paid for imme-

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

diately through the employee's salary. But government employees are also compensated by future retirement benefits. Expenditures of public sector retirement are thus, to a considerable degree, present payments in compensation for services delivered in the past. The expenditure category "interest and other financial obligations relating to past government activities" thus includes interest and principal payments on government debt and outlays for government employee retirement. Total government spending on these items equaled \$468 billion in FY 2004.¹¹

While direct benefits, means-tested benefits, public education, and population-based services will grow as more immigrants take up residence in the United States, this is not the case for interest payments on the debt and related costs. These costs were fixed by past government spending and borrowing and are largely unaffected, at least in the intermediate term, by immigrants' entry into the United States. While an increased inflow of low-skill immigrants will lead to an increase in most forms of government spending, it will not, in the short term, cause an increase in interest payments on government debt. To assess the fiscal impact of low-skill immigrants, therefore, the present report follows the procedures used by the National Academy of Sciences in *The New Americans*. That is, the report ignores the costs of interest on the debt and similar financial obligations when calculating the net tax burden imposed by low-skill immigrant households.¹²

On the other hand, while low-skill immigrant households do not increase government debt immediately, over the long term such households will, on average, increase government debt significantly. For example, if a low-skill immigrant household generates a net fiscal deficit (immediate benefits received minus taxes paid) of \$20,000 per year and roughly 10 percent of that amount is financed each year by government borrowing, then the immigrant household would be responsible for adding roughly \$2,000 to government debt each year. After 50 years, the family's contribution to growth in government debt would be around \$100,000. While these potential costs are significant, they are outside the scope of the current paper and are not included in the calculations presented here.

Pure Public Goods

Economic theory distinguishes between "private consumption goods" and pure public goods. Economist Paul Samuelson is credited with first making this distinction. In his seminal 1954 paper "The Pure Theory of Public Expenditure,"¹³ Samuelson defined a pure public good (or what he called in the paper a "collective consumption good") as a good "which all enjoy in common in the sense that each individual's consumption of such a good leads to no subtractions from any other individual's consumption of that good." By contrast, a "private consumption good" is a good that "can be parceled out among different individuals." Its use by one person precludes or diminishes its use by another.

A classic example of a pure public good is a lighthouse: The fact that one ship perceives the warning beacon does not diminish the usefulness of the lighthouse to other ships. Another clear example of a governmental pure public good would be a future cure for cancer produced by government-funded research. The fact that non-taxpayers would benefit from this discovery would neither diminish its benefit nor add extra costs to taxpayers. By contrast, an obvious example of a private consumption good is a hamburger: When one person eats it, it cannot be eaten by others.

Direct benefits, means-tested benefits, and education services are private consumption goods in the sense that use of a benefit or service by one person precludes or limits the use of that same benefit by another. (Two people cannot cash the same Social Security check.) Population-based services such as parks and highways are often mentioned as "public goods," but they are not pure public goods in the strict sense described above. In most cases, as the number of persons using a population-based service (such as highways and parks) increases, either the service must expand (at added cost to taxpayers) or the service will become "congested" and its quality will be reduced. Consequently, use of population-based services such as police and fire departments by non-taxpayers does impose significant extra costs on taxpayers.

11. Of this total, an estimated \$67 billion represents the costs of financial obligations resulting from past public goods expenditures. These costs are entered in the public goods category in Table 1.

12. National Research Council, *The New Americans*, pp. 302, 303.

13. Paul A. Samuelson, "The Pure Theory of Public Expenditure," *Review of Economics and Statistics*, Vol. 36, No. 4 (1954), pp. 387–389.

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Government pure public goods are rare; they include scientific research, defense, spending on veterans, international affairs, and some environmental protection activities such as the preservation of endangered species. Each of these functions generally meets the criterion that the benefits received by non-taxpayers do not result in a loss of utility for taxpayers. Government pure public good expenditures on these functions equaled \$628 billion in FY 2004. Interest payments on government debt and related costs resulting from public good spending in previous years add an estimated additional cost of \$67 billion, bringing the total public goods cost in FY 2004 to \$695 billion.

An immigrant's entry into the country neither increases the size and cost of public goods nor decreases the utility of those goods to taxpayers. In contrast to direct benefits, means-tested benefits, public education, and population-based services, the fact that low-skill immigrant households may benefit from public goods they do not pay for does not add to the net tax burden on other taxpayers. This report therefore follows the same methods employed by the National Academy of Sciences in its analysis of the fiscal impact of immigration in *The New Americans* and excludes public goods from the count of benefits received by low-skill immigrant households.¹⁴ (For a further discussion of pure public goods, see Appendix D.)

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 to \$23,154 per household across the entire population.

	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%	\$6,056
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 Good Expenditures	1,429,605	1,228,344	2,657,948		\$23,154

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

Taxes and Revenues

Total taxes and revenues for federal, state, and local governments amounted to \$3.43 trillion in FY 2004, with an average cost of \$29,919 per household across the whole population. A detailed breakdown of federal, state, and local taxes is provided in Appendix Table 3. The biggest revenue generator was the federal income tax, which cost

14. National Research Council, *The New Americans*, pp. 302, 303.

the taxpayers \$808 billion in 2003, followed by Federal Insurance Contribution Act (FICA) taxes, which gathered \$685 billion. Property tax was the biggest revenue producer at the state and local levels, generating \$318 billion, while general sales taxes gathered \$244 billion.

Summary of Estimation Methodology

This paper seeks to estimate the total cost of benefits and services received, and the total value of taxes paid, by households headed by immigrants without a high school diploma. The fiscal analysis presented in this paper 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 government. 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 might 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 33 separate tax and revenue categories and over 50 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 Appendices A and B and in Appendix Tables 4 and 5. The present section will briefly summarize the procedures used.

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.

Federal and state income taxes were calculated based on data from the CPS. FICA taxes were also calculated from CPS data; both the employer and employee share of FICA taxes were assumed to fall on workers.

Sales, excise, and property tax payments were based on consumption data from the Consumer Expenditure Survey. 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.

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.

As noted, a fundamental rule in the analysis was that the estimated expenditure for each program for the whole population had to equal actual government outlays for that program. Similarly, total revenue for each estimated tax had to equal total revenue from the tax as reported in government budget documents.

CPS data are problematic in this respect since they generally underreport both benefits received and taxes paid. 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.

Estimating Taxes and Benefits for Illegal Immigrant Households

By most reports, there were some 11 million illegal immigrants in the U.S. in 2004.¹⁵ About 9.3 million of these individuals were adults.¹⁶ Roughly 50 to 60 percent of these illegal adult immigrants lacked a high school degree.¹⁷ About 90 percent of illegal immigrants are reported in the CPS.¹⁸ This report covers only those illegal immigrants reported in the CPS and does not address the remaining 10 percent not counted by the Census Bureau.

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 paper.¹⁹ 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 paper which is limited to the legal and illegal immigrant households that appear in the CPS.²⁰

Of the 4.5 million low-skill immigrant households analyzed in this report, an estimated 41 percent were headed by illegal immigrants.²¹ 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 are 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 do not rely on a household's self-report of receipt of benefits but imputes receipt to all households that are apparently eligible based on income level. The most notable example of this practice is the Earned Income tax Credit. Although 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, the analysis reduces the EITC benefits received by low-skill immigrant households by the portion of those households 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

15. Passel, *Unauthorized Migrants*, p. 2.

16. *Ibid.*, p. 6.

17. Passel, *Unauthorized Migrants*, p. 23

18. Passel, *Ibid.*, p. 4. The current report does not cover the estimated 1 million illegal immigrants who are not represented in the CPS.

19. 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.

20. A very small number of immigrants who reside in nursing facilities have also been added to the calculations; individuals who reside in nursing facilities do not appear in the CPS. See Appendices A and B.

21. Estimate provided by Steven A. Camarota of the Center for Immigration Studies.

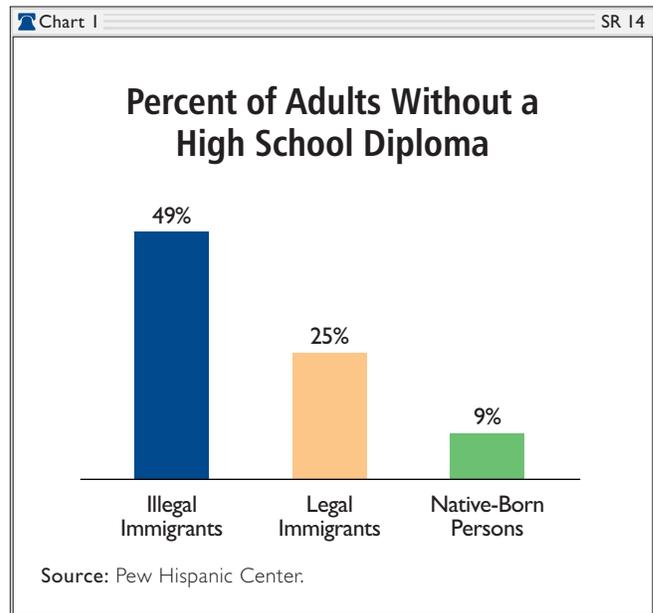
of illegal immigrants work “off the books,” paying neither individual income nor FICA taxes.²² The present analysis adjusts the estimated income and FICA taxes paid by low-skill immigrant households downward slightly to adjust for the “off the books” labor of low-skill illegal immigrants.

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, at least 50 percent, and perhaps 60 percent of illegal immigrant adults lack a high school degree.²³ 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 9 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.

There is a common misconception that the low education levels of recent immigrants is part of a permanent historical pattern, and that the U.S. has always admitted 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 1998, recent immigrants were almost four times more likely to lack a high school degree than were non-immigrants.²⁴

As the relative education level of immigrants fell in recent decades, 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 fell, so did relative wages. By 1998, the average immigrant earned 23 percent less than the average non-immigrant.²⁵



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 5 percent of the U.S. population. As Table 2 shows, 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 household). 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).

22. Randy Capp, Everett Henderson, Jeffrey S. Passel, and Michael Fix, *Civic Contributions Taxes Paid by Immigrants in the Washington, DC Metro Area*, The Urban Institute, May 2006, p. 6, fn. 3, at 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, at www.urban.org/publications/407432.html. Camarota, *The High Cost of Low-skill Labor*.

23. Passel, *Unauthorized Migrants*, Camarota, *The High Cost of Low-skill Labor*.

24. George J. Borjas, *Heaven's Door: Immigration Policy and the American Economy* (Princeton, N.J.: Princeton University Press, 1999), p. 27.

25. *Ibid.*, p. 8.

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 the overall poverty rate of 12.7 percent in the U.S. population.

Low-skill immigrant households are larger and younger than are households headed by non-immigrant dropouts: Only 17 percent of low-skill immigrant households are elderly compared to 43 percent of households headed by non-immigrant dropouts. Because they are younger, low-skill immigrant households have more workers per household than similar non-immigrant households, but the average wage per worker is actually slightly higher in low-skill non-immigrant households (\$20,828 per worker among non-immigrants compared to \$18,490 among immigrants).

Costs of Benefits and Services for Low-Skill Immigrant Households

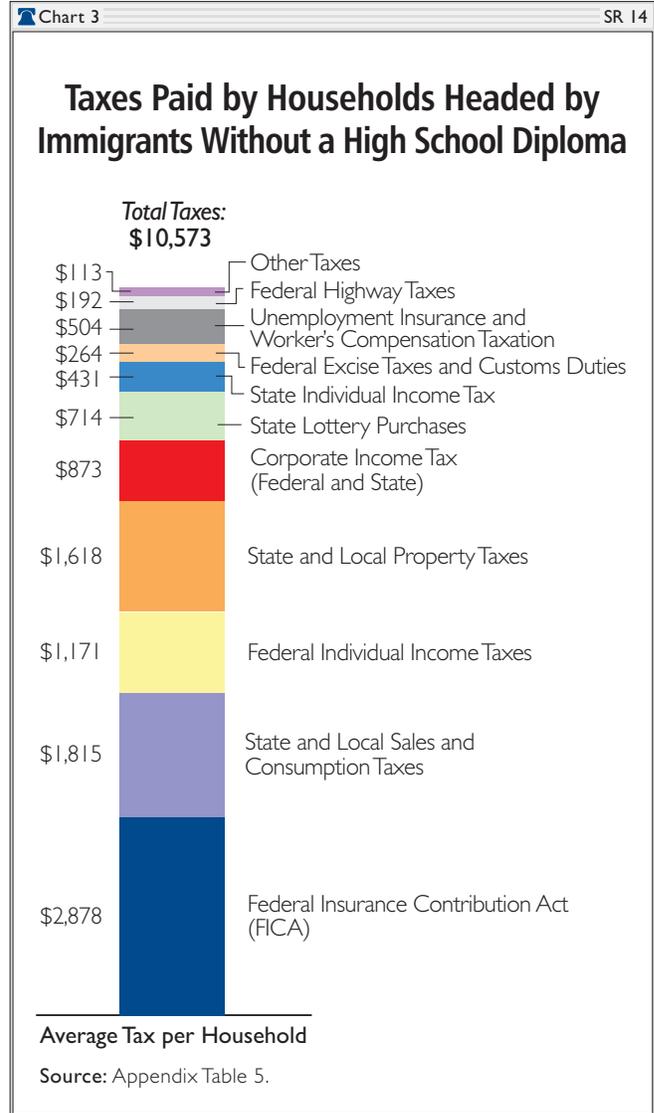
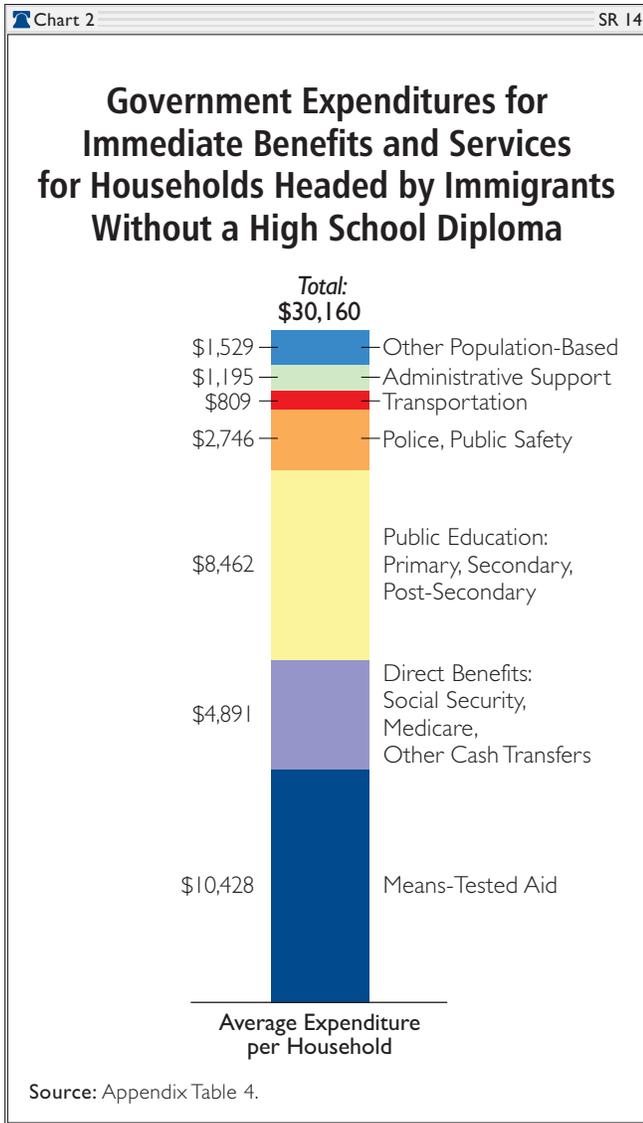
The focus of this paper is the benefits received and taxes paid by households headed by immigrants without a high school diploma. (Throughout the paper, these households are also called low-skill immigrant households.) In 2004, there were 4.54 million such households in the U.S. Appendix Table 4 shows the estimated costs of government benefits and services received by these households in 51 separate expenditure categories. The results are summarized in Chart 2.

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.

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, and administrative support services cost \$1,195. Miscellaneous population-based services added a final \$1,529.

It is important to note that the costs of the immediate 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.

	Households Headed by Persons Without a High School Degree		All other households
	<i>Immigrant</i>	<i>Non-immigrant</i>	
	Number of households	4.43 million	12.4 million
Number of persons in households	15.9 million	29.1 million	245.9 million
Number of earners in households	6.9 million	10.5 million	135.9 million
Persons per household	3.6	2.3	2.6
Adults per household	2.4	1.8	1.9
Children per household	1.2	0.5	0.6
Earners per household	1.6	0.8	1.4
Earnings per household	\$28,890	\$17,581	\$54,629
Earnings per worker	\$18,490	\$20,828	\$38,713
Median age of householder	42	60	47
Percent of households headed by persons 65 and older	17.2%	42.9%	17.7%
Percent of persons in household who were 65 or older	7.3%	25.0%	10.9%
Percent of persons in household who were 16 to 64	59.2%	52.0%	64.0%
Percent of persons in household who were under age 18	33.5%	23.0%	25.1%



Taxes and Revenues Paid by Low-Skill Immigrant Households

Appendix Table 5 details the estimated taxes and revenues paid by low-skill immigrant households in 31 categories. The results are summarized in Chart 3. As the chart 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.

The single largest tax payment was \$2,878 per household in Federal Insurance Contribution Act 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 \$686 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.

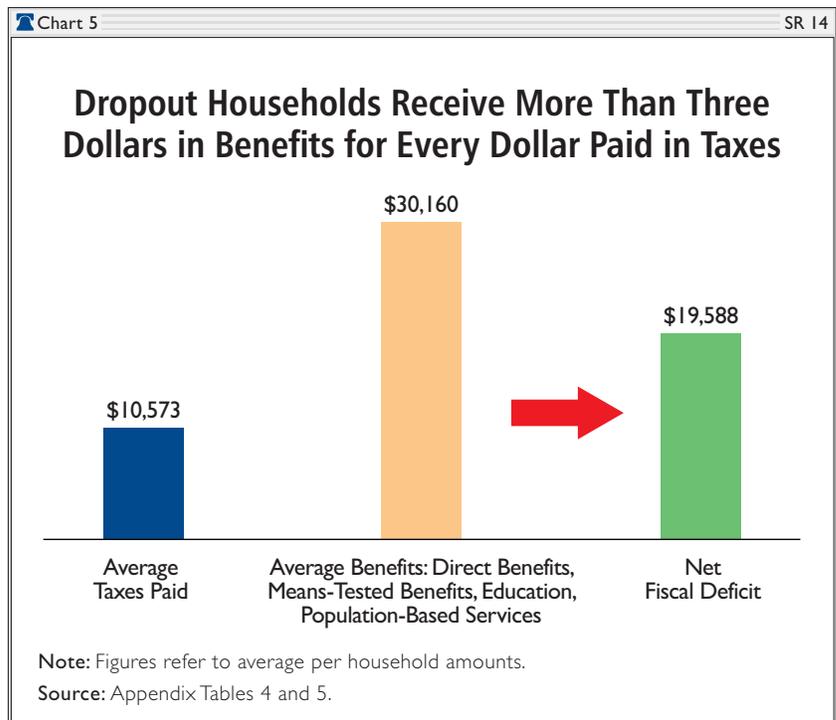
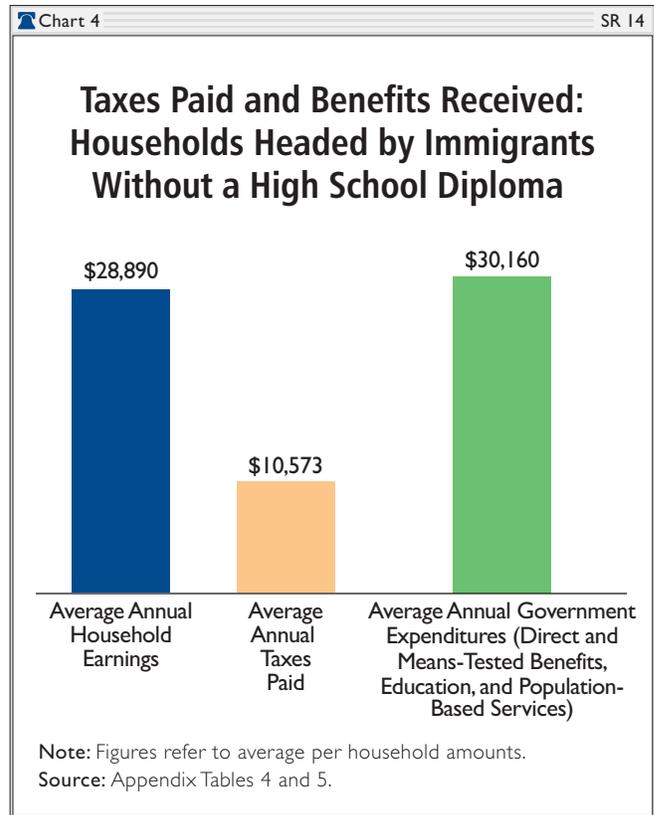
Net Annual Fiscal Deficit

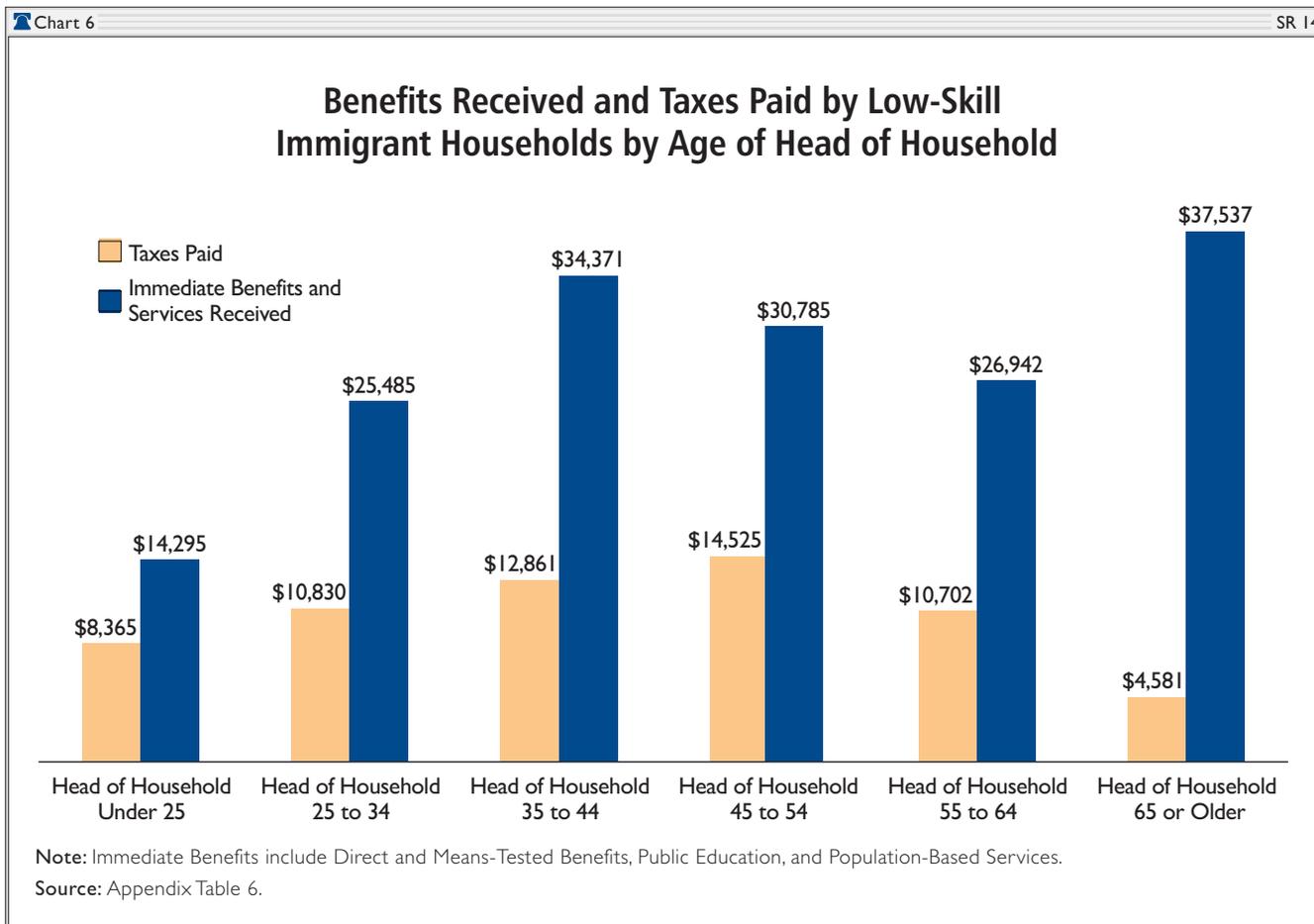
The net fiscal deficit of a household equals the cost of immediate benefits and services received minus taxes paid. As Chart 5 shows, if the costs of direct and means-tested benefits, education, and population-based services were counted, the average low-skill household had a fiscal deficit of \$19,588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

At \$19,588, the average annual fiscal deficit for low-skill immigrant households was nearly twice the amount of taxes paid. In order for the average low-skill household to be fiscally solvent (taxes paid equaling immediate benefits received), it would be necessary to eliminate all Social Security and Medicare, all means-tested welfare, and to cut expenditures on public education roughly in half.

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. Tax payments vary less by the age of the householder than do benefits, rising slowly to a peak for immigrant householders in their late 40s and early 50s, 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 no point in the life cycle does the average low-skill immigrant household pay in more 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 households, more than eight dollars in benefits are received for each dollar in taxes paid.

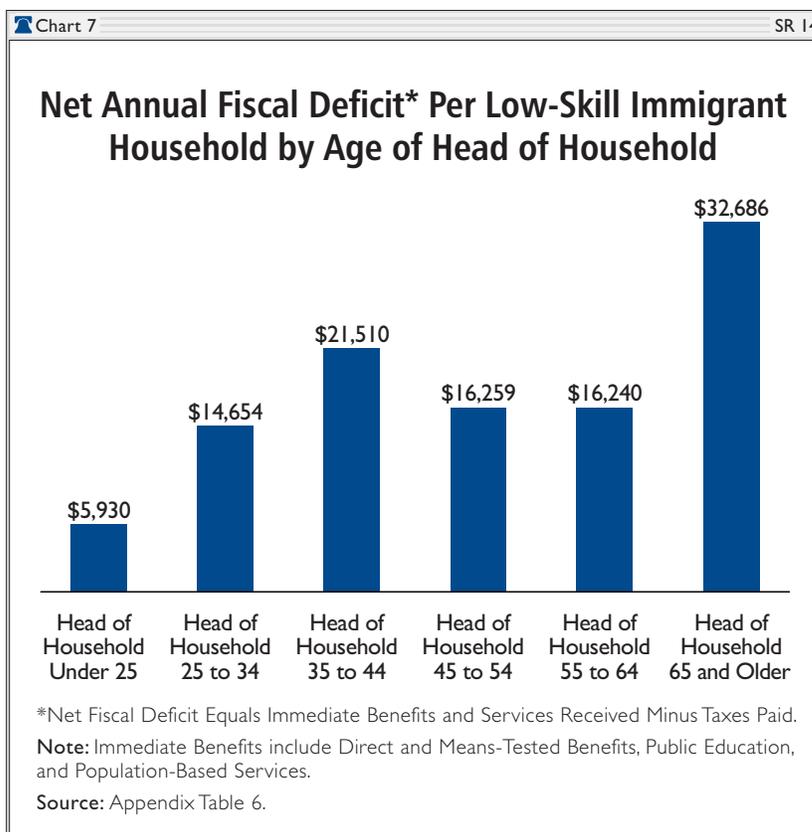
These figures belie the notion that government can relieve financial strains in Social Security and other programs simply by importing younger immigrant workers. The fiscal impact of an immigrant worker is determined far more by skill level than by age. Low-skill immigrant workers impose a net drain on government finance as soon as they enter the country and add significantly to those costs 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,²⁶ the average lifetime costs to the taxpayer will be nearly \$1.2 million for each low-skill household, net of any taxes paid.²⁷

This calculation assumes that a low-skill immigrant comes to the U.S. in his mid-twenties with a spouse and that both remain in the U.S. for an average of 60 years. Even if low-skill immigrants return home rather than remain in the U.S. permanently, thereby reducing costs, this argument merely underscores how costly low-skill immigrants are to the U.S. taxpayer. The less time these immigrants spend in the U.S., the lower the cost to the taxpayer. Moreover, most current immigration reform proposals would grant legal status to illegal immigrants, increasing their access to welfare and Social Security. These proposals would substantially increase the time that these immigrants remain in the U.S.



Aggregate Annual Net Fiscal Costs

In 2004, there were 4.54 million low-skill immigrant households. As shown in Chart 5, 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 \$19,588 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.

Future Retirement Costs of Low-skill Immigrants

As Chart 7 shows, low-skill immigrants at each age create a net burden on taxpayers. However, the fiscal burden becomes most severe among elderly households, where the net annual fiscal deficit soars to \$32,686 per household per year. This amounts to roughly \$15,000 per year for each elderly low-skill immigrant.

There are currently 8 million non-elderly adult immigrants in low-skill immigrant households.²⁸ Assuming normal mortality rates, perhaps 7 million of these individuals will live to age 67.²⁹ After reaching age 67, the normal life expectancy would be approximately 18 years. With an average net cost of roughly \$270,000 over 18 years, the net

26. This calculation assumes the low-skill immigrant remains in the U.S. for his full life.

27. An alternative approach to calculating lifetime fiscal costs is to multiply 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 lifetime fiscal burden of around \$1.2 million. Figures are available upon request.

28. This figure excludes non-immigrant adults in these households.

29. The Social Security retirement age will be raised to 67 in 2022.

future retirement costs of the 7 million low-skill immigrants would be around \$1.9 trillion.

There are two important assumptions behind this calculation. First, it assumes that current low-skill immigrants will remain in the U.S. or, at least, receive government benefits through old age.³⁰ Second, the calculation assumes that illegal immigrants will, over time, become entitled to government benefits. (This question is discussed in the policy issues section below.) If adult illegal immigrants do not obtain entitlement to Social Security and other government benefits, then the long-term cost to taxpayers will be significantly reduced. This emphasizes the basic point that the longer low-skill immigrants remain in the U.S., and the more access they have to government benefits, the greater the cost to U.S. taxpayers.

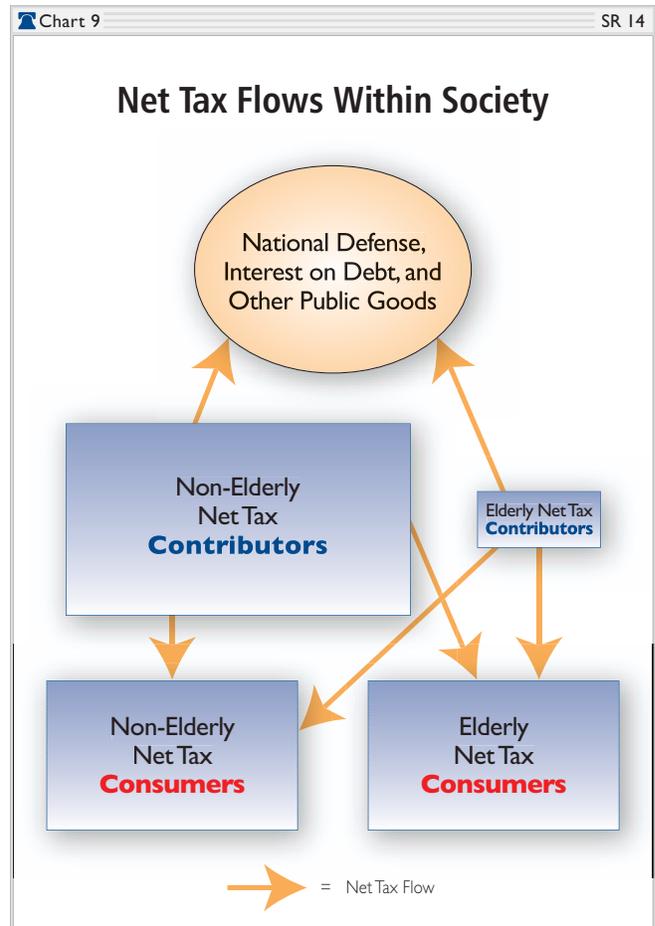
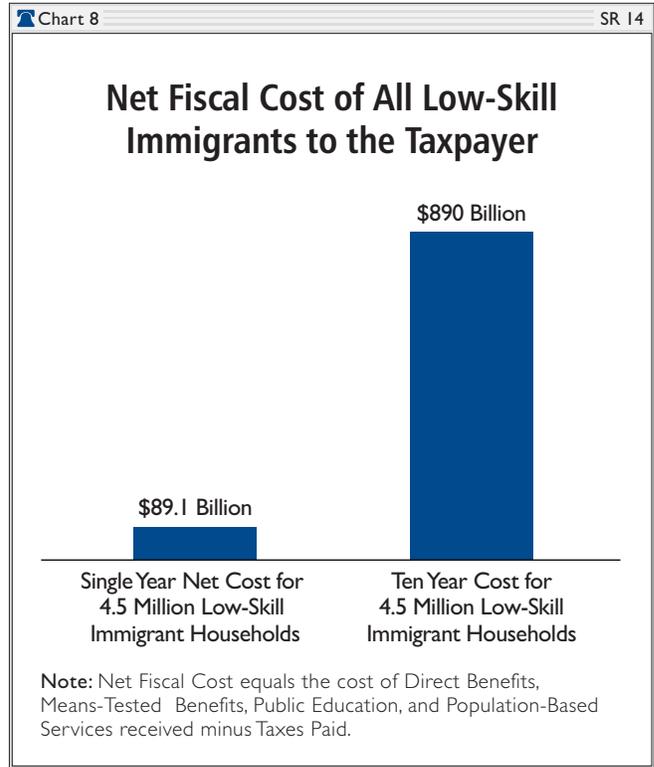
The Balance of Tax Payers and Tax Consumers

Chart 9 outlines net tax flows within society. The concept of net tax flow is important; a low-income household may pay taxes but if the cost of benefits the household received exceeds taxes paid, the household is a net tax consumer.

Most government activity is financed by upper middle class, working age families. These families are the primary net tax payers within society. They receive no welfare and generate enough taxes to pay for the public education and population-based services received by their families. In addition, these families generate surplus taxes that pay for: 1) Social Security, Medicare, and other benefits for the elderly; 2) welfare, public education, and other services for lower-income working age families; and, 3) national defense, other public goods, and interest on government debt.

When upper middle class families age and then retire, tax payments fall and benefits from Social Security and Medicare increase. At this point, benefits begin to exceed taxes paid and most middle class families will transition from being net tax payers to net tax consumers. A small number of elderly householders with assets will generate enough tax revenue to cover their Social Security, Medicare, and other services; these households will continue to contribute a tax surplus to fund other government functions.

30. It would be possible for some low-skill immigrants to obtain eligibility for Social Security and Medicare and then return home; this would remain very costly for U.S. taxpayers, though perhaps slightly less costly than if the immigrant remained in the U.S.



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On the other hand, low-skill households are net tax consumers even during their working years. It is important to note, these families are rarely idle; they consistently work and pay taxes. However, the taxes they pay are seldom, if ever, sufficient to cover the cost of the government benefits they receive. In consequence, these households must be continually subsidized by other taxpayers.

Low-skill immigrants are among these problematic households. On average, they are a net fiscal burden throughout their working years, and after retirement they become an even greater tax burden. Politicians should be wary of any policy that will increase the future number of net tax consumers. Immigration policy, in particular, should be focused on increasing the number of positive taxpayers and reducing the future number of tax consumers.

Do Low-Skill Immigrants Contribute to the Solvency of Social Security?

It is often argued that low-skill immigrants have a positive impact on U.S. taxpayers because they pay taxes into the Social Security trust fund. It is true that low-skill immigrant households pay, on average, around \$2,900 per year in Social Security (FICA) taxes; however, the average Social Security and Medicare benefits they receive actually exceed the FICA taxes paid. Of course, low-skill immigrant households receive many other government benefits as well, receiving ten dollars in total government benefits for each dollar they pay in Social Security taxes.

Even if low-skill immigrants were net contributors to the Social Security trust fund, it would be a serious mistake to look at Social Security in isolation from other government taxes and expenditures. A household that pays a small amount in Social Security taxes but consumes many times that amount in benefits funded by other tax sources does not contribute to the fiscal health of government. In the final analysis, taxpayers, including many Social Security recipients, will face higher taxes in order to subsidize low-skill immigrant households.

Education as a Social Investment

Advocates for low-skill immigration sometimes argue that education is a social investment “that cannot be counted as a cost to any particular group of people.”³¹ Consequently, they suggest that public education should not be counted among the benefits received by low-skill immigrants at taxpayer expense. Most studies of immigration do not agree. The National Academy of Sciences, for example, explicitly included education among the benefits counted in its fiscal analysis of immigration.³²

To pay the costs of educating the children of low-skill immigrants, U.S. taxpayers must sacrifice income and forgo the wants and needs of their own families. This represents a financial loss to taxpaying families, just as paying for welfare benefits for low-skill immigrant households is a financial loss. The taxpaying family has less income for its own needs as a direct result of the presence of the low-skill immigrant household in the U.S.

While recognizing that public education is a real cost to taxpayers, it is also true that paying for the education of children of poor parents who are lawful permanent residents is a prudent policy choice. Publicly financed education for children in low-skill families will increase the wages earned and taxes paid by those children as adults, thereby reducing the fiscal drag (benefits in excess of taxes) that their children will impose on society in future years.

But to say that it is fiscally prudent to pay for the education of children who are lawful permanent residents does not mean that it is fiscally prudent to allow low-skill immigrant parents and their children to enter the country and become residents in the first place. A major element in determining whether it is fiscally wise to admit low-skill immigrants into the U.S. as residents is the substantial educational costs that will be required to prevent their children from becoming future financial liabilities to society.

31. Walter A. Ewing and Benjamin Johnson, “Dollars without Sense: Underestimating the Value of Less-Educated Workers,” Immigration Policy Center, May 2007, p. 1.

32. National Research Council, *The New Americans*.

Further, while it is true that education will help raise the incomes of children of low-skill parents, expectations concerning the potential gains from education can be overblown. When a child of poorly educated parents receives subsidized public education, four fiscal outcomes are possible:

1. There is no increase in wages, and the child remains in the same deep fiscal deficit as his parents;
2. The child's income increases, and the magnitude of his fiscal deficit is reduced relative to that of his parents, but the child remains in fiscal deficit when becoming an adult;
3. Education raises the child's income to the point where he becomes a positive fiscal contributor (taxes exceed benefits over a lifetime); or,
4. Education raises the child's or subsequent generations' income to the point that they not only become positive fiscal contributors, but are able to repay the initial fiscal losses from the parents' generation.

Simplistic accounts of the gains from education often suggest that schooling will enable children of poorly educated parents to readily achieve at least the third outcome. Given the regressive nature of the distribution of benefits and the progressive nature of taxation, this seems unlikely. On average, an individual must achieve a fairly high income to become a net fiscal contributor. This does not mean that investment in education is unwise. It simply means that society should be realistic about its expectations with respect to what education can achieve.

Expectations that children of low-skill immigrants will be able to generate fiscal surpluses (taxes in excess of benefits) that would compensate for the fiscal costs of their low-skill parents are particularly problematic. To accomplish this, it would be necessary for children in the second generation to pay very high taxes. Since the first generation of low-skill immigrant families, on average, produce a net fiscal deficit of \$19,588 per year over a lifetime, it would be necessary, in the simplest sense, for their children to generate a fiscal surplus of roughly the same amount each year to compensate for losses in the first generation.³³ Since the average household in the U.S. receives over \$23,000 each year in immediate benefits and services, it would probably be necessary for a household to pay over \$40,000 in taxes to generate a yearly fiscal surplus of \$20,000. Only very high income households would pay that much in taxes.

The National Academy of Sciences (NAS) study of the fiscal impact of immigration found that the net taxes paid by the descendants of low-skill immigrants did not make up for the severe initial fiscal losses in the first generation. Like the present study, the NAS report showed the fiscal impact of immigrants without a high school degree was negative: benefits received exceeded taxes paid. With generous assumptions concerning upward mobility, the study found the descendants of low-skill immigrants would pay more in taxes than they received in benefits, but these gains were never sufficient to offset the fiscal losses in the first generation. The net present value of the future fiscal impact of immigrants without a high school degree remained negative even when the assumed earnings and taxes of descendants over the next 300 years were included in the calculation.³⁴

Moreover, even if the descendants of low-skill immigrants, after many generations, create enough fiscal surplus to repay the steep fiscal losses of the first generation, this does not mean that admitting low-skill immigrants as permanent residents with a pathway to citizenship is a lucrative "investment" in the future. Any "investment" that requires even 40 years to repay its initial cost is a remarkably unproductive use of resources. American citizens have thousands of more productive uses for their money, including, for example, investing more in the education of their own children.

Finally, it is important to remember that, in contrast to low-skill immigrants, immigrants with a college degree become positive fiscal contributors from the outset; the taxes they pay will exceed the benefits their families receive. Unlike low-skill immigrants, high-skill immigrants will not produce a generation of sharp fiscal losses, and their children are far more likely to do well in school and be strong fiscal contributors themselves when compared to the children of low-skill immigrants.

33. Technically, the intergenerational fiscal impact of low-skill immigrants would equal the net present value of the fiscal losses and gains of the first and subsequent generations of immigrants. Using a net present value approach, the fiscal surplus in the second generation would need to be greater than \$19,500 per household per year in order to generate an overall surplus by the end of the second generation.

34. National Research Council, *The New Americans*, p. 334 (table 7.5) and p. 328 (figure 7.10).

Possible Indirect Fiscal Effects

The analysis presented in this paper reflects the direct fiscal impact of low-skill immigrants. It reports the benefits received and taxes paid by those immigrants. However, there can be other indirect fiscal consequences of low-skill immigration. For example, low-skill immigrants augment the U.S. labor force and thereby expand the gross domestic product (GDP). Low-skill immigrants themselves capture most of the gain from this expanded production through their wages, and taxes on the immigrants' wages and consumption are already incorporated in the analysis.

But the owners of businesses that employ the low-skill immigrants also receive income from their investment in the enterprises in which the immigrants work. The difficulty is to determine whether the investment in enterprises employing low-skill immigrants represents a net expansion of the stock of investment or merely a reallocation of investment that would have existed without the presence of the immigrant labor. New net investment would result in new income, and this added income would be taxed by government in a variety of ways. Even though the low-skill immigrants would not pay these taxes themselves, their employment would have triggered the extra tax revenue.

In the extreme case, one might assume that all the investment associated with low-skill immigrant labor represents a net increase in capital stock. Since low-skill immigrants earn about two percent of all wages in the U.S. economy, this might coincide with a two percent increase in business profits and capital income. If this were the case, the result would be a roughly \$11 billion increase in federal state and local revenue from a variety of different taxes; this indirect tax gain would amount to roughly \$2,500 per low-skill household.³⁵ This should be considered a very preliminary estimate.

Again the difficulty with this calculation lies in the assumption that all the capital invested in the employment of low-skill immigrants represents a net increase rather than a reallocation of capital stock. Because of the uncertainty involved in this calculation, these indirect revenue figures have not been included in the main fiscal tabulations presented in this paper.

Conversely, there may be other indirect effects that substantially increase the fiscal drain created by low-skill households. An additional indirect fiscal effect would occur if the presence of immigrant workers in the U.S. reduced the wages or employment of competing non-immigrant workers. For example, Harvard professor George Borjas has estimated that the very large influx of immigrant workers between 1980 and 2000 lowered the wages of the average non-immigrant worker by 3.2 percent. In particular, the disproportionate influx of low-skill immigrants was estimated to reduce the wages of low-skill native workers by 8.9 percent.³⁶ Although Borjas's study is prominent in the analysis of the labor effects of immigration, the author acknowledges that his analysis may overstate the negative consequences of immigration because it fails to allow for new capital inflows in response to immigration and does not reflect the possibility that high tech immigrant workers may be important agents for generating beneficial technological change.

Nonetheless, to the extent that low-skill immigration does reduce the wages and employment of competing low-skill non-immigrants, it could have a considerable indirect negative fiscal impact. If the wages of low-skill, non-immigrants fall in response to rapid inflows of low-skill immigrants, then the taxes paid by these non-immigrants would fall and their means-tested government benefits would increase. While the fiscal impact of this could be large, it lies outside the scope of the present paper.

Potential Economic Gains and Losses from Low-Skill Immigration

While the fiscal consequences of low-skill immigration are strongly negative, it is possible that low-skill immigrants create economic benefits that partially compensate for the net tax burdens they create. For example, it is fre-

35. In 2004, 2 percent of profits, rental, and interest income equaled around \$36 billion. Assuming a 40 percent aggregate tax rate on this income, total taxes would equal around \$11.4 billion. Subtracting the worker's share of corporate profits tax, which is already included in the basic calculations in Appendix table 5, would yield around \$11 billion in indirect tax revenue. These should be considered very preliminary and uncertain estimates.

36. George J. Borjas, "The Labor Demand Curve Is Downward Sloping: Reexamining the Impact of Immigration on the Labor Market," *Quarterly Journal of Economics*, November 2003, pp. 1335–1374.

quently argued that low-skill immigration is beneficial because low-skill immigrants expand the gross domestic product (GDP). While it is true that low-skill immigrants enlarge the GDP, the problem with this argument is that the immigrants themselves capture most of the gain from expanded production in their own wages. Metaphorically, while low-skill immigrants make the American economic pie larger, they themselves consume most of the pie slice their labor adds.

The central issue in the debate over the costs and benefits of low-skill immigration is not whether such immigration makes the U.S. GDP larger (clearly it does), but whether low-skill immigration raises the post-tax income of the average non-immigrant American. Given the very large net tax burden that low-skill immigrants impose on U.S. society, such immigrants would have to raise the incomes of non-immigrants to a remarkable degree to have a net beneficial effect. But there is little evidence to suggest that low-skill immigrants increase the incomes of non-immigrants.

To determine the impact of low-skill immigration on the post-tax incomes of non-immigrants, it would be necessary to examine the effect of such immigration on: the wages and employment of low-skill and other non-immigrant workers, property income, consumer prices, and government tax rates and deficits. These are important questions, but lie beyond the scope of the current paper.

Policy Issues

Each year roughly 1.5 million legal and illegal immigrants enter and take up residence in the U.S. This immigrant flow is disproportionately poorly educated because illegal immigration primarily attracts low-skill workers and the legal immigration system favors kinship ties over skill levels. As a result there are currently 4.5 million low-skill immigrant households in the U.S., containing 15.9 million persons, roughly 5 percent of the U.S. population. At each age level, low-skill immigrant households receive substantially more in government benefits than they pay in taxes. Overall, low-skill immigrant households impose a net cost of \$89 billion per year on U.S. taxpayers.

The fiscal cost of low-skill immigrants will be increased in the future by government policies that increase: the number of low-skill immigrants, the immigrants' length of stay in the U.S., or the access of low-skill immigrants to government benefits. Conversely, fiscal costs will be reduced by policies that decrease these variables.

Clearly, immigration policy has enormous fiscal implications. Consistent with principles for immigration reform laid out elsewhere,³⁷ immigration policy should be changed to reduce the costs of low-skill immigration to the taxpayer:

1. **Enforce the current law against employing illegal immigrants.** Illegal immigrants are predominantly low-skilled. Over time, they impose large costs on the taxpayer. In 1986, the U.S. gave amnesty to 3 million illegal aliens in exchange for a prohibition on hiring illegals in the future. While amnesty was granted, the law against hiring illegals was never enforced in more than a token manner. As a result, there are now 11 to 12 million illegal immigrants in the U.S. Because the majority of illegal immigrants come to the U.S. for jobs, serious enforcement of the ban on hiring illegal labor would substantially reduce employment of illegal aliens and encourage many to leave the U.S. Reducing the number of low-skill illegal immigrants in the nation and limiting the future flow of illegal immigrants will reduce future costs to the taxpayer.
2. **Do not grant amnesty to illegal immigrants.** Granting amnesty to illegal immigrants would, over time, confer entitlement to welfare, Social Security, and Medicare for the amnesty recipients. This would be ruinously expensive to U.S. taxpayers. Similarly a modified amnesty such as the Z visa program proposed by President Bush, would, almost certainly, over time result in entitlement of the Z visa holders

37. Edwin Meese III and Matthew Spalding, "The Principles of Immigration," Heritage Foundation *Background* No. 1807, October 19, 2004. See also, Edwin Meese III and Matthew Spalding, "Where We Stand: Essential Requirements for Immigration Reform," Heritage Foundation *Background* No. 2034, May 10, 2007. Robert Rector, "Amnesty and Continued Low-Skill Immigration Will Substantially Raise Welfare Costs and Reduce Poverty," Heritage Foundation *Background* No. 1936, May 16, 2006, p. 13.

to welfare, Social Security, and Medicare; such a plan would be nearly as expensive as forthright amnesty. Amnesty in any form would impose serious fiscal costs.

3. **Any guest worker program must be truly temporary and not a gateway to welfare entitlements.**³⁸

A program that involves long-term residence and permits access to welfare, Social Security, Medicare, and public education would be enormously expensive to the U.S. taxpayer. For example, if the “guest worker” brings school-age children with him, each child will generate, on average, \$9,600 in public education costs that must be funded by U.S. taxpayers. Similarly, even if the guest worker’s low-income family were formally barred from receiving welfare assistance, in reality, such families would be likely to receive aid simply because welfare agencies would be reluctant to deny services to families that appear to be in need of aid. Finally, bringing a family into the U.S. would make it far less likely the guest worker would actually return home; continued residence in the U.S. would increase fiscal costs.

Granting U.S. citizenship to guest workers’ children born in the U.S. would raise fiscal costs. If a child born to a guest worker is granted U.S. citizenship, that child immediately becomes entitled to Medicaid coverage and a full range of other welfare benefits. Further, granting the child citizenship makes it less likely that the guest worker parents will actually leave the U.S., and thereby increases taxpayer costs. The law establishing the guest worker programs should clearly stipulate that children born to guest workers would be treated in the same manner as children of diplomats—that is, they would be citizens of their parents’ country of origin rather than the United States.

In 2006, the Senate passed the Comprehensive Immigration Reform Act (S. 2611). If enacted, S. 2611 would have created a massive “temporary guest worker” program for low-skill workers. In this program, the workers would have been neither “temporary” nor “guests.” Instead, the “guest workers” would have been entitled to legal permanent residence (LPR) with access to welfare and ultimately to U.S. citizenship.³⁹ Such a program would have greatly increased the number of low-skill immigrants in the U.S. at enormous cost to U.S. taxpayers.

4. **Eliminate birthright citizenship for children of illegal immigrants.**⁴⁰ When an illegal immigrant gives birth within U.S. borders, the government automatically confers U.S. citizenship on the child. This practice generates considerable costs for U.S. taxpayers and creates practical difficulties against attempts to remove the illegal immigrant parents.

There are currently 3 million U.S.-born children of illegal immigrants in the U.S.;⁴¹ such children are typically called anchor babies. Under current immigration law, when an anchor baby reaches age 21, he can petition to have his parents granted legal permanent residence and the government must, with few exceptions, grant the request. The green card category of parental “immediate relatives” is uncapped. When the illegal immigrant parent is granted legal permanent residence, he soon becomes eligible for welfare and can begin to earn eligibility to receive extensive Social Security and Medicare benefits.⁴² In effect, under current law, having a child as an illegal immigrant within U.S. borders is a nearly automatic pathway to welfare, Social Security, Medicare, and eventually citizenship for an illegal immigrant. The fiscal implications of this policy are enormous.

38. A temporary guest worker program must be limited in scope and limited in duration; it must not be a pathway to legal permanent residence and citizenship; guest workers should not bring their families to the U.S., since the inclusion of families would greatly increase costs to U.S. taxpayers, and the policy of birthright citizenship should not apply to children born to guest workers temporarily in the U.S.; participants should not be entitled to U.S. welfare and should not become eligible for future Social Security and Medicare benefits; employers should be required to cover medical costs of workers while they are in the U.S. Edwin Meese III and Matthew Spalding Ph.D., “Permanent Principles and Temporary Workers,” Heritage Foundation *Background* No.1911, March 1, 2006.

39. Robert Rector, “Senate Immigration Bill Would Allow 100 Million New Legal Immigrants over the Next Twenty Years,” Heritage Foundation *WebMemo* No. 1076, May 15, 2006.

40. John C. Eastman, Ph.D., “From Feudalism to Consent: Rethinking Birthright Citizenship,” Heritage Foundation *Legal Memorandum* No. 18, March 30, 2006. Robert Rector, “Amnesty and Continued Low-Skill Immigration Will Substantially Raise Welfare Costs and Reduce Poverty,” Heritage Foundation *Background* No 1936, May 16, 2006.

41. Passel, *The Size and Characteristics of the Unauthorized Migrant Population in the U.S.*

42. Eligibility for Social Security is granted after 40 quarters (ten years) of lawful employment.

5. **Reduce the number of legal permanent residence visas based on kinship and increase the number of visas allocated to high-skilled workers.**⁴³ Under current law, the visa lottery and visa preferences for adult brothers, sisters, and parents tend to bring a high proportion of low-skill immigrants into the U.S. While low-skill immigrants create a fiscal burden for U.S. taxpayers, high-skill immigrants will tend to pay more in taxes than they receive in benefits. The legal immigration system should be altered to reduce the number of low-skill immigrants entering the country and increase the number of new entrants with high levels of education and skills in demand by U.S. firms. The visa lottery and all preferences for brothers, sisters, parents, and relatives other than spouses and minor children should be eliminated and replaced by new skill-based visas. Parents would be able to visit children in the U.S. as guests but not as legal permanent residents with access to welfare.

Conclusion

The United States offers enormous economic opportunities and societal benefits. Hundreds of millions more people would immigrate to the U.S. if they had the opportunity. Given this context, the U.S. must be selective in its immigration policy. Policymakers must ensure that the interaction of welfare and other financial transfer programs with immigration does not expand the fiscally dependent population, thereby imposing large costs on American society. Current immigration policies with respect to both legal and illegal immigration encourage the entry of a disproportionate number of poorly educated immigrants into the U.S. As these low-skill immigrants (both legal and illegal) take up residence, they impose a substantial tax burden on U.S. taxpayers. The benefits received by low-skill immigrant households exceed taxes paid at each age level; at no point do these households pay more in than they take out.

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. 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.

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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43. Robert Rector, "Amnesty and Continued Low-Skill Immigration Will Substantially Raise Welfare Costs and Reduce Poverty," Heritage Foundation *Backgrounder* No 1936, May 16, 2006. Robert Rector "Importing Poverty: Immigration and Poverty in the United States," Heritage Foundation *Special Report* No. 9, October, 25, 2006, p. 29.

Appendix A General Methodology

Introduction

This appendix documents the methods used to calculate the spending and tax figures presented in the paper. Throughout, the term “low-skill immigrant households” is used as a synonym for households headed by immigrants without a high school degree.

Data Sources

Data on federal expenditures were taken from *Historical Tables, Budget of the United States Government, Fiscal Year 2006*.⁴⁴ Data on federal taxes and revenues were taken from *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2006*.⁴⁵

State and local aggregate expenditures and revenue data were taken from the U.S. Bureau of Census survey of government finances and employment.⁴⁶ Added information on state and local spending categories was taken from U.S. Census Bureau, *Federal State and Local Governments: 1992 Government Finance and Employment Classification Manual*.⁴⁷

Detailed information on means-tested spending was taken from Congressional Research Service, *Cash and Non-cash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data, FY 2002–FY 2004*. This report provides important information on state and local means-tested expenditures from states’ and localities’ own financial resources as distinct from expenditures funded by federal grants in aid.⁴⁸

Data on Medicaid expenditures for different recipient categories were taken from the Medicaid Statistical Information System (MSIS) as published in *Medicare & Medicaid Statistical Supplement, 2006*.⁴⁹ Data on the distribution of benefits and distribution of some taxes were taken from the U.S. Census Bureau’s Current Population Survey (CPS) of March 2005 (which covers the year 2004).⁵⁰ Additional data on public school attendance were taken from the October 2004 Current Population Survey.⁵¹ Data on household expenditure were taken from the Bureau of Labor Statistics Consumer Expenditure Survey (CEX) for 2004.⁵²

Data on Medicaid expenditures in institutional long-term care facilities were taken from *Medicare & Medicaid Statistical Supplement, 2006*.⁵³ Data on the education levels of elderly persons in institutional long-term care facilities were taken from the National Long Term Care Survey (NLTC).⁵⁴ Data on the number of individuals residing in

44. Office of Management and the Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 2006*.

45. Office of Management and the Budget, *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2006*, pp. 299–313.

46. See www.census.gov/govs/estimate/0400ussl_1.html.

47. See <http://ftp2.census.gov/govs/class/classfull.pdf>.

48. Congressional Research Service, *Cash and Noncash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data, FY 2002–FY 2004*, March 27, 2006.

49. U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services, *Medicare & Medicaid Statistical Supplement*, Medicaid Tables 14.1–14.27, 2006. This survey covers 2003.

50. The analysis used an electronic version of the March CPS data from the National Bureau of Economic Research. See www.nber.org/data/cps.html.

51. The analysis used an electronic version of the October CPS data from the National Bureau of Economic Research. See www.nber.org/data/cps.html.

52. U.S. Department of Labor, U.S. Bureau of Labor Statistics, *Consumer Expenditure in 2004*, Report 992, April 2006.

53. U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services, *Medicare & Medicaid Statistical Supplement*, Medicaid Tables 14.1–14.27, 2006.

54. Duke University and National Institutes of Health, National Institute on Aging, National Long Term Care Survey, 1999 Public Use Data Files National Long Term Care Study (NLTC), 1999 public use dataset. Produced and distributed by the Duke University Center for Demographic Studies with funding from the National Institute on Aging under Grant No. U01-AG007198. The NLTC is a nationally representative sample of individuals ages 65 years and older in long-term care facilities.

nursing homes in the average month and the number of Medicaid recipients in nursing homes were taken from the 2004 National Nursing Home Survey (NNHS). Data on the number of individuals in other types of institutions were taken from Census 2000 Summary File 1.⁵⁵ Information on illegal immigrants was taken primarily from *The Size and Characteristics of the Unauthorized Migrant Population in the U.S.: Estimates Based on the March 2005 Current Population Survey*, prepared by the Pew Hispanic Center.⁵⁶

Count of Households

The Current Population Survey (CPS) reports some 113.15 million households in the U.S. in 2004. In addition, in the average month in 2004, 1.65 million persons resided in long-term care institutions:⁵⁷ 1.49 million were in nursing facilities, and 155,000 were in intermediate care facilities for the mentally retarded (ICF-MR).⁵⁸ These long-term care residents were not included in the population reported in the CPS; however, because these individuals are the beneficiaries of a substantial share of Medicaid expenditure, it is important that they be included in any accounting of fiscal balances and distribution. Consequently, the 1.65 million persons in long-term care facilities were included in the present analysis; each individual in such a facility was counted as a separate household, swelling the overall count of households from 113.15 million to 114.8 million.

There are no direct data available on the share of persons in institutional care facilities who were immigrants; therefore, the low-skill immigrant share of this population was estimated in the following way. The share of adults aged 18 to 64 in nursing facilities who were low-skill immigrants was assumed to equal the low-skill immigrant share of all adults in this age range in the general population in the CPS (4.9 percent). The share of children from low-skill immigrant families residing in nursing facilities and ICF-MR was assumed to equal the share of children from low-skill immigrant families among all children in the general population in the CPS (7 percent). The share of elderly persons in nursing facilities who were low-skill immigrants was estimated by multiplying the share of elderly persons in nursing homes who lacked a high school degree (48 percent)⁵⁹ by the share of elderly persons without a high school degree in the general population in the CPS who were immigrants (17.4 percent). This yielded an estimated low-skill immigrant share of elderly persons in nursing facilities of 8.4 percent.

Altogether, 120,000 low-skill immigrants or minor children of low-skill immigrant families were estimated to reside in long-term care facilities in FY 2004; over 90 percent of these individuals were elderly. (The calculations are shown in Appendix Table 7.) Each of these individuals was counted as a separate household, raising the number of low-skill immigrant households from 4.4 million to 4.5 million.⁶⁰

The 120,000 low-skill immigrants or minor children from low-skill immigrant households constituted 7.2 percent of persons in institutional care; this was higher than the share of persons in low-skill immigrant households in the general population (5.4 percent). The disproportionate number of low-skill immigrants in institutional care is due to the disproportionate number of elderly immigrant dropouts estimated to be in institutional care; the esti-

55. U.S. Department of Health and Human Services, Centers for Disease Control and Prevention, National Center for Health Statistics, 2004 National Nursing Home Survey (NNHS), public use files, and U.S. Census Bureau, 2000 Census Summary File (SF 1), PCT16, PCT17–PCT17I.

56. 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.

57. These are estimates for the number of individuals in long-term care institutions at a given point in time during the year. The number of individuals who reside in such institutions at any time during the year would be higher.

58. On any given day, some 1.49 million individuals reside in long-term care nursing facilities, according to the 2004 National Nursing Home Survey. In addition to individuals in nursing facilities, some 155,000 other individuals live in other types of long-term care facilities, according to the 2000 Census. The majority of these individuals reside in wards, hospitals, and other facilities for the handicapped.

59. Unpublished estimates calculated by the authors using the 1999 National Long Term Care Study (NLTC).

60. The 120,000 low-skill immigrants in institutional care was added to the denominator for all calculations concerning benefits or taxes per low-skill immigrant household. The 120,000 low-skill immigrants and 1.65 million persons in general in institutional care were included in all calculations based on share of the population. Low-skill immigrants in institutional care are assumed to pay neither FICA nor income tax. Individuals in institutional care were not included in the calculations concerning population-based services or indirect taxes using Consumer Expenditure Survey data; this omission will have little or no effect on the figures in this report.

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mated high number of poorly educated elderly immigrants in institutional care is consistent with the fact that the CPS shows that a disproportionate share of Medicaid expenditures on the elderly in the general population (9.6 percent) goes to low-skill immigrant households.

The share of Medicaid expenditures going to low-skill immigrants in institutional care settings was calculated separately for eight specific sub-categories. These calculations are described in Appendices B and C.

Calculating Aggregate Federal, State, and Local Spending

Aggregate federal expenditures at the sub-function level were taken from *Historical Tables, Budget of the United States Government, FY 2007*. These data are presented in Appendix Table 1. State and local aggregate expenditures were based on data from the U.S. Bureau of Census survey of government.⁶¹

Two modifications were necessary to yield an estimate of the overall combined spending for federal, state, and local government. First, some \$408 billion in state and local spending is financed by grants in aid from the federal government. Since these funds are counted as federal expenditures, recording them again as state and local expenditure would constitute a double count. Consequently, federal grants in aid were deducted from the appropriate categories of state and local spending.

A second modification involves the treatment of market-like user fees and charges at the state and local levels. These transactions involve direct payment of a fee in exchange for a government service: for example, payment of an entry fee at a park. User fees are described in the federal budget in the following manner:

[I]n addition to collecting taxes...the Federal Government collects income from the public from market-oriented activities and the financing of regulatory expenses. These collections are classified as user charges, and they include the sale of postage stamps and electricity, charges for admittance to national parks, premiums for deposit insurance, and proceeds from the sale of assets such as rents and royalties for the right to extract oil from the Outer Continental Shelf.⁶²

In the federal budget, user fees are not counted as revenue, and the government services financed by user fees are not included in the count of government expenditures. As the Office of Management and Budget states:

[User charges] are subtracted from gross outlays rather than added to taxes on the receipts side of the budget. The purpose of this treatment is to produce budget totals for receipts, outlays, and budget authority in terms of the amount of resources allocated governmentally, through collective political choice, rather than through the market.⁶³

In contrast, Census tabulations of state and local government finances include user fees as revenue and also include the cost of the service provided for the fee as an expenditure.⁶⁴ The most prominent user fees treated in this manner in the Census state and local government financial data are household payments to public utilities for water, power, and sanitation services.

But market-like, user fee payments of this type do not involve a transfer of resources from one group to another or from one household to another. In addition, government user fee transactions do not alter the net fiscal deficit or surplus of any household (defined as the cost of total government benefits and services received minus total taxes and revenues paid) because each dollar in services received will be matched by one dollar of fees paid. Finally, determining who has paid a user fee and received the corresponding service is very difficult.

For these reasons, this paper has applied the federal accounting principle of excluding most user fees from revenue tallies and excluding the services funded by the fees from the count of expenditures to state and local government finances. This means that user charges and fees were removed from both the revenue and expenditure tallies

61. See www.census.gov/govs/estimate/0400ussl_1.html.

62. Office of Management and Budget, *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2006*, p. 301.

63. *Ibid.*

64. U.S. Census Bureau, *Federal State and Local Governments: 1992 Government Finance and Employment Classification Manual*, sections 3.31 and 7.24.

for state and local government. As noted, the inclusion or exclusion of these user fees has no effect on the fiscal deficit figures for low-skill immigrant households presented in this paper.

Appendix Tables 2A, 2B, and 2C show the deductions of federal grant in aid and user fee expenditures that yielded the state and local expenditure totals used in this analysis.

Estimating the Allocation of Direct and Means-Tested Benefits

In most cases, the dollar cost of direct benefits and means-tested benefits received by low-skill immigrant households was estimated by the dollar cost of benefits received as reported in the Census Bureau's Current Population Survey (CPS). One problem with this approach is that the CPS underreports receipt of most government benefits. This means that the aggregate dollar cost of benefits for a particular program as reported in the CPS is generally less than the actual program expenditures according to government budgetary data.

To be accurate, any fiscal analysis must adjust for benefit underreporting. This has been done in prior studies; for example, the National Academy of Sciences study of the fiscal costs of immigration, *The New Americans*, made an adjustment for such underreporting.⁶⁵

The current analysis adjusts for underreporting in the CPS with a simple mathematical procedure that increases overall spending on any given program to equal actual aggregate spending levels and increases expenditures on low-skill immigrant households in an equal proportion. Let:

E_{tx} = total expenditures for program x reported in the CPS;

E_{lx} = expenditures for program x for low-skill immigrant households reported in the CPS;

E_{bx} = total expenditures for program x according to independent budgetary sources; and

H_l = number of low-skill immigrant households in the CPS.

The share of expenditures reported in the CPS received by low-skill immigrant households would equal E_{lx}/E_{tx} . The actual expenditures allocated to low-skill immigrant households would be estimated to equal (E_{lx}/E_{tx}) times E_{bx} .

The average per household benefit from the program received by low-skill immigrant households would equal:

(E_{lx}/E_{tx}) times (E_{bx}/H_l)

For example, if the CPS reported that low-skill immigrant households received 10 percent of food stamp benefits and the total expenditures on food stamps according to budgetary data were \$20 billion, low-skill immigrant households would be estimated to receive \$2 billion in food stamp benefits. If there were 4 million low-skill immigrant households, the average food stamp benefit per low-skill household would equal \$2 billion divided by 4 million households, or \$500.

The key assumption behind this underreporting adjustment procedure is that low-skill immigrant households underreport receipt of welfare and other government benefits at roughly the same rate as the general population. For example, if receipt of food stamps is underreported by 15 percent in the CPS for the overall population, the adjustment procedure assumes that the sub-group of low-skill immigrant households in the CPS would also underreport food stamp receipt by 15 percent. The average level of food stamp benefits among low-skill immigrant households as reported in the CPS is then adjusted upward by this ratio to compensate for the underreporting.⁶⁶ Since there is no evidence to suggest that low-skill immigrant households underreport government benefits to the Census at a rate different from that of the general population, this procedure appears valid as an estimating technique.

65. National Research Council, *The New Americans: Economic, Demographic, and Fiscal Effects of Immigration* (Washington, D.C.: National Academy Press, 1997), p. 308.

66. If CPS underreports benefits by 15 percent, the underreporting would be corrected by multiplying the CPS total by the inverse of 100 percent minus 15 percent (the inverse of 85 percent).

Estimating the Allocation of Education Expenditures

The average cost of public education services was calculated in a somewhat different manner since the CPS reports whether an individual is enrolled in a public school but does not report the cost of education services provided. Consequently, data from the Census survey of governments were used to calculate the average per pupil cost of public primary and secondary education in each state.⁶⁷ The total governmental cost of primary and secondary schooling for each household was then estimated by multiplying the number of enrolled pupils in the household by the average per pupil cost in the state where the household resides.

This procedure yielded estimates of total public primary and secondary education costs for low-skill immigrant households in the CPS and for the whole population in the CPS. Adjustments for misreporting in the CPS were made according to the procedures outlined above. Public costs for post-secondary education were allocated in a similar manner.

Estimating the Allocation of Medical Expenditures

There is often confusion concerning the calculation of the cost of Medicaid and Medicare benefits by the Census. The Census makes no effort to determine the costs of medical treatments given to a particular person. Instead, it calculates the average cost of Medicaid or Medicare benefits per person for a particular demographic/beneficiary group. For example, per capita Medicaid costs for children are very different from those for the elderly. The Census assigns the appropriate per capita Medicaid or Medicare costs to each individual who reports coverage in the CPS according to the individual's beneficiary class: for example, elderly, children, non-elderly able-bodied adults, and disabled adults.

Allocation of Medicaid expenditures is complicated by the fact that a significant portion of those expenditures goes to persons in long-term care institutions who are not counted in the CPS. In the average month in 2004, some 1.65 million persons resided in long-term care institutions,⁶⁸ about 62 percent of these individuals received Medicaid assistance.⁶⁹ The first step in allocating Medicaid expenditures is to determine the share of expenditures going to institutionalized and non-institutionalized persons within each of four primary recipient categories: elderly, children, non-elderly disabled adults, and non-elderly able-bodied adults. The procedures for determining this are presented in Appendix C. Once the separation of institutional and non-institutional Medicaid expenditures has been determined, the low-skill immigrant share of Medicaid spending in the general/non-institutional population can be determined for each of the recipient categories directly from CPS data.

For persons in institutions, additional sources of information are used in the estimates according to procedures described in Appendix B. In general, the analysis assumes that for each recipient category, the share of Medicaid expenditure going to immigrants without a high school degree will equal the low-skill immigrant share of Medicaid expenditures for the same recipient category in the general/non-institutional population as measured in the CPS.

In FY 2004, some \$46 billion in Medicaid funds was spent on elderly individuals in nursing homes and other institutional long-term care facilities,⁷⁰ of which nearly 60 percent was spent on Medicaid recipients without a high school degree;⁷¹ of the spending going to elderly residents without a high school degree, an estimated 22.7 percent went to immigrants without a high school degree. (See Appendix C.)

67. U.S. Census Bureau, Governments Division, *Public Education Finances, 2004*, issued March 2006. Costs included both current expenditures and capital outlays.

68. In the average month in 2004, about 1.49 million individuals resided in nursing homes; another estimated 155,000 individuals resided in long-term care institutions other than nursing homes.

69. The 62 percent statistic comes from the 2004 National Nursing Home Survey (NNHS). This analysis assumes that the share of Medicaid recipients in other types of long-term care institutions is equal to the share of Medicaid recipients in nursing homes.

70. Estimates based on FY 2003 MSIS expenditure data, as published in *Medicare & Medicaid Statistical Supplement, 2006*, and adjusted to equal actual FY 2004 expenditure levels as reported by the CRS. The spending figure includes a 12 percent increase for ancillary medical services. See Appendix B.

71. Some 98 percent of Medicaid's institutional long-term care expenditures on the elderly went to elderly persons in nursing facilities. The National Long Term Care Study showed that 59 percent of elderly Medicaid recipients in nursing facilities lacked a high school degree.

Estimating the Allocation of Population-Based Services

Wherever possible, this analysis has allocated the cost of population-based services for low-skill immigrant households in proportion to their estimated utilization of those services. For example, the proportionate utilization of roads and highways by low-skill immigrant households was estimated, in part, on the basis of their share of gasoline purchases as estimated in the Consumer Expenditure Survey (CEX).

When an estimate of proportionate utilization was not possible, the cost of population-based services was allocated on a uniform per capita basis. Some population-based services, such as airports, will be used infrequently by low-skill immigrant households; in these cases, the cost of the service for low-skill immigrant households was set at zero or at an arbitrary low level.

Estimating the Allocation of the Costs of General Government and Administrative Support Services

Allocation of the costs of general government services such as tax collections and legislative functions presents difficulties since there is apparently no one who directly benefits from those services. Most taxpayers would regard IRS collection activities as a burden, not a benefit; however, while government administrative functions *per se* do not benefit the public, they do provide a necessary foundation that makes all other government benefit and service programs possible. A household that receives food stamp benefits, for example, could not receive those benefits unless the IRS had collected the tax revenue to fund the program in the first place.

It seems reasonable to integrate proportionally the cost of government support services into the cost of other government functions that depend on those services. Following this reasoning, the expenditures for general government and administrative support have been allocated among households in the same proportions that total direct benefits, means-tested benefits, education, and population-based services are distributed among households.⁷²

Estimating the Allocation of Financial Obligations Relating to Past Government Activities

Year by year, throughout most of the post-war period, U.S. taxpayers have not paid for the full cost of benefits and services provided by government. A portion of annual costs is passed on to be paid in future years. Government costs are shifted to future years through two mechanisms.

First, when government expenditure exceeds revenue, the government runs a deficit and borrows funds. The cost of borrowing is passed to future years in the form of interest payments and repayments of principal on public debts.

Second, when a government employee provides a service to the public, part of the cost of that service is paid for immediately through the employee's salary, but the employee may also receive government retirement benefits in the future in compensation for services provided in the present. Expenditures on public-sector retirement systems are thus, to a considerable degree, present payments in compensation for services delivered in the past.

Interest payments on government debt are largely fixed by past government borrowing; an immigrant's entry into the U.S. does not cause interest payments to increase. While direct benefits, means-tested benefits, public education, and population-based services all will tend to increase as additional low-skill immigrants take up residence in the U.S., interest on government debt and similar obligations are largely unaffected in the intermediate-term future by increases in the number of immigrants. For that reason, this report does not include interest on the debt and similar costs in the primary net tax burden calculations presented in this paper. This is consistent with methods employed by the National Academy of Sciences in its assessment of the fiscal costs of immigrants in *The New Americans*.⁷³

72. Approximately 27 percent of total federal expenditure is devoted to pure public good functions; thus, 27 percent of federal support service expenditure was assumed to assist public good functions.

73. National Research Council, *The New Americans*, p. 304.

Estimating the Distribution of Pure Public Goods

Government pure public goods include expenditures on defense, veterans, international affairs, scientific research, and part of spending on the environment, as well as debt obligations relating to past public good spending. The total cost of pure public goods was divided by the whole U.S. population to determine an average per capita cost.

The fact that an immigrant enters the U.S. and benefits from governmental public good expenditures does not increase costs or diminish the utility of public goods spending for other taxpayers. Because of this, the low-skill immigrant share of public goods spending has not been included in the net tax burden calculations presented in this paper. This is consistent with methods employed by the National Academy of Sciences in its assessment of the fiscal costs of immigrants in *The New Americans*.⁷⁴

Estimating the Distribution of Taxes and Other Government Collections

The distribution of federal and state income taxes was calculated from CPS data. The Census imputes tax payments into the CPS based on a household's income and demographic characteristics and the appropriate federal and state tax rules; however, since income is underreported in the CPS, this means that imputed taxes will also be too low. Thus, the imputed tax payments in the CPS were adjusted to equal the aggregate income tax revenues reported in government budgetary documents. (Federal revenue totals were taken from *Analytical Perspectives, Budget of the U.S. Government, Fiscal Year 2006*.⁷⁵ State and local tax and revenue data were taken from the U.S. Census survey of governments.⁷⁶)

The procedures for adjusting for the underreporting of income taxes were the same as those used to adjust for underreporting of expenditures. For example, for federal income tax, let:

T_t = total income tax reported in the CPS;

T_l = total income tax for low-skill immigrant households reported in the CPS;

T_b = total income tax according to independent budgetary sources; and

H_l = number of low-skill immigrant households in the CPS.

The share of taxes paid by low-skill immigrant households as reported in the CPS would equal T_l/T_t . The actual expenditures allocated to low-skill immigrant households would be estimated to equal (T_l/T_t) times T_b .

The average paid per low-skill household would equal:

(T_l/T_t) times (T_b/H_l)

State income taxes were adjusted for underreporting according to the same formula.

Employees were assumed to pay both the "employee" and "employer" share of FICA taxes. Allocation of FICA taxes was estimated based on the distribution reported in the CPS, adjusted for underreporting in the manner described above.

The incidence of federal and state corporate profits tax was assumed to fall 70 percent on workers and 30 percent on owners of capital.⁷⁷ The workers' share was allocated according to the distribution of earnings in the CPS; the owners' share was allocated according to the allocation of property income in the CPS.

Sales and excise taxes were assumed to fall on the consumer; tax payments were estimated based on the share of total consumption of relevant commodity or commodities in the Consumer Expenditure Survey (CEX). For example, since the CEX reported that households headed by persons without a high school degree consumed 18.2 percent of the sales of tobacco products, these same households were estimated to pay a corresponding 18.2 percent of all excise and sales taxes on tobacco products. Additional information on specific taxes is provided below.

74. *Ibid.*

75. Office of Management and Budget, *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2006*, pp. 299–323.

76. See www.census.gov/govs/estimate/0400ussl_1.html.

77. William C. Randolph, "International Burdens of the Corporate Income Tax," Congressional Budget Office *Working Paper* No. 2006-09, 2006.

Estimating Consumption by Low-Skill Immigrant Households

Many tax and expenditure calculations in this paper require an estimate of consumption of various items by low-skill immigrant households based on CEX data. An earlier version of this analysis measured the fiscal impact of all households headed by persons without a high school degree (both immigrants and non-immigrants).⁷⁸ Measuring the consumption of these households was easy because the CEX identifies households according to the education level of the household head; however, the CEX does not report the immigration status of the head of the household.

The present paper circumvents this problem by using low-skill Hispanic households in the CEX as a proxy group to estimate the consumption of low-skill immigrant households. There is considerable overlap between low-skill Hispanic households (meaning households headed by Hispanics without a high school degree) and low-skill immigrant households. It seems reasonable, therefore, to assume that the consumption of various goods as a percentage of income is similar between the two groups. For example, if food consumption as a share of income for Hispanic households headed by persons without a high school degree is known from the CEX, a similar figure can be estimated for low-skill immigrant households after adjusting for modest differences in income between the two groups.

The consumption of various goods by low-skill immigrant households was therefore estimated by taking the aggregate consumption of that good by low-skill Hispanic households and multiplying by the ratio of aggregate low-skill immigrant income to low-skill Hispanic income in the CPS. For any consumption good₁ let:

C_{TCEX} = Total Dollar Value of Consumption of Item₁ in CEX for Whole Population;

C_{LH1} = Total Dollar Value of Consumption of Item₁ in CEX by Low-Skill Hispanic Households;

C_{LI1} = Derived Total Dollar Value of Consumption of Item₁ by Low-Skill Immigrant Households;

Y_{LH} = Total Income of Low Skill Hispanic Households in CPS;

Y_{LI} = Total Money Income of Low Skill Immigrant Households in CPS.

Then:

$$C_{LI1} = Y_{LI} \text{ times } C_{LH1} / Y_{LH}$$

The low-skill immigrant share of total consumption of the good would equal:

$$C_{LI1} / C_{TCEX}$$

It might be argued that, despite the considerable overlap between low-skill immigrant households and households headed by Hispanics without a high school degree, the procedure outlined above overestimates the consumption of low-skill immigrants because immigrants are likely to send a substantial portion of their income back to their native country in remittances, whereas non-immigrants of similar education status will spend all of their income in the U.S. If this argument is correct, it would mean that the fiscal deficit estimates in this paper are somewhat too low. If low-skill immigrant households consume less than this model estimates, amount of government services received and consumption taxes paid by low-skill households would be reduced. But the drop in tax payments would be substantially larger than the reduction in benefits. For example, if the consumption level of low-skill immigrant households was 20 percent below the level assumed in this report, this would result in a \$900 per household drop in taxes paid but only a \$240 drop in benefits received.

Adjusting the Estimated Taxes and Benefits for Illegal Immigrant Households

There were some 11 million illegal immigrants in the U.S. in 2004.⁷⁹ About 9.3 million of these individuals were adults,⁸⁰ roughly half of whom lacked a high school degree.⁸¹ About 90 percent of illegal immigrants are reported

78. Robert Rector, Christine Kim, and Shanea Watkins, *The Fiscal Cost of Low-Skill Households to the U.S. Taxpayer*, Heritage Foundation Special Report No. SR-12, April 4, 2007.

79. Passel, *The Size and Characteristics of the Unauthorized Migrant Population in the U.S.*, p. 1.

80. *Ibid.*, p.7.

81. Passel, *Unauthorized Migrants*, p. 23.

in the CPS.⁸² This report covers only those illegal immigrants who are reported in the CPS and does not address the remaining 10 percent not counted by the 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 might raise the aggregate net tax burden imposed by low-skill immigrant households by roughly 4 percent.⁸³

Of the 4.5 million low-skill immigrant households analyzed in this report, approximately 41 percent were headed by illegal immigrants.⁸⁴ Households headed by illegal immigrants differ from other immigrant households in certain key respects. Illegal immigrants themselves are not eligible for most 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 of the data on direct and means-tested government benefits in the CPS are based on a household's self-report concerning receipt of each benefit by family members; the analysis assumes that if an illegal immigrant household reports receipt of a government benefit, that report is accurate. The fact that low-skill illegal immigrant households are less likely to receive certain types of government benefits is already reflected in lower levels of reported benefit receipt for those households in the CPS; the CPS data will accurately reflect the limited eligibility for benefits within illegal immigrant households.

However, for two benefit programs, the earned income tax credit (EITC) and the additional child tax credit (ACTC), the CPS imputes receipt of benefits rather than relying on self-report of the householder. The EITC is a refundable tax credit that provides cash to low-income working parents with children. In general, parents must be working lawfully in the U.S. to be eligible for the credit. Since the Census does not distinguish the legal status of parents and assumes that all employment is "on the books," these procedures clearly result in the assignment of EITC benefits to many illegal immigrant families who in reality receive no benefits. The present analysis adjusts for the misallocation of EITC benefits to illegal immigrant households in the CPS; it reduces the share of EITC benefits going to low-skill immigrant households in the CPS by the portion of low-skill immigrant households that are assumed to be illegal (41 percent). ACTC benefits are reduced in a similar manner.

There are also six taxes that are significantly affected by an immigrant household's legal status: the federal income tax, state income tax, FICA tax, worker's compensation tax, federal unemployment insurance tax, and state unemployment insurance tax. The value of income and FICA taxes paid by households is imputed into the CPS by Census analysts according to the household's income demographic characteristics and state of residence. The Census imputation procedures assume that all households work "on the books" and pay taxes owed; however, most analyses assume that nearly half (45 percent) of illegal immigrants work "off the books" and would not therefore pay income or FICA taxes.⁸⁵ Any estimate of the FICA, income, workers' compensation, and unemployment insurance taxes paid by low-skill immigrant households must therefore adjust for the tax reduction effect due to the high number of illegal immigrants who work "off the books."

This paper uses an "illegal immigrant adjustment factor" to reduce the estimated tax payments made by low-skill immigrant households. The illegal immigrant adjustment factor was computed as follows: Some 41.5 percent of low-skill immigrant households are assumed to be headed by illegal immigrants; among these, some 45 percent are assumed to work "off the books." Overall, 18.7 percent (45 percent times 41.5 percent) of the income in low-skill immigrant households is assumed to be the result of "off the books" labor on which taxes are not paid. The estimated

82. *Ibid.*, p. 4. The current report does not cover the estimated 1 million illegal immigrants who are not represented in the CPS.

83. 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, 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.

84. Information provided by Steven A. Camarota of the Center for Immigration Studies.

85. Randy Capp, Everett Henderson, Jeffrey S. Passel, and Michael Fix, *Civic Contributions Taxes Paid by Immigrants in the Washington, DC Metro Area*, Urban Institute, May 2006, footnote 3 on page 6, at www.urban.org/UploadedPDF/411338_civic_contributions.pdf; Jeffrey S. Passel and Rebecca L. Clark, *Immigrants in New York: Their Legal Status, Income and Taxes*, Urban Institute, 1998, at <http://www.urban.org/publications/407432.html>; Steve Camarota, *The High Cost of Low Skill Labor*, Center for Immigration Studies, August 2004.

level of federal income tax, state income tax, FICA tax, worker's compensation tax, and unemployment insurance paid by low-skill immigrant households is therefore reduced by 18.7 percent.

(This procedure is likely to underestimate the level of "off the books" labor in low-skill immigrant households and overestimate the taxes paid because it seems likely that less educated illegal immigrants would be more likely to work informally and "off the books" than would better educated illegal immigrants. Consequently, the "off the books" labor rate for illegal immigrant households headed by high school dropouts may be higher than the overall average of 45 percent.)

Indirect taxes such as sales, excise, and property taxes are determined by household consumption levels as estimated from the CEX and are unaffected by a family's legal status. Similarly, population-based services such as highways, sewers, and fire protection services are allocated on the basis of consumption or on a per capita basis and would be largely unaffected by a household's legal status. It is often reported that illegal immigrants consume less as a share of income and send more money back as remittances to their native countries. If this is true, illegal immigrants will pay less in consumption and property taxes relative to their incomes than will other social groups. However, since the analysis estimates the consumption and property taxes paid by low-skill immigrant households (both legal and illegal) on the basis of the self-reported consumption of low-skill Hispanic households in the CEX (immigrant and non-immigrant), the tendency for immigrant households to consume less and send part of their income abroad in remittances is already, to a considerable degree, built into the analysis. Similarly, population-based services such as highways, sewers, and fire protection services are allocated on the basis of consumption or on a per capita basis and would be largely unaffected by a household's legal status.

Appendix B

Specific Calculations on Expenditures and Taxes

The average cost of government benefits and services per low-skill household was calculated for 61 separate expenditure categories. The algorithms employed for each category are described below, and the specific calculations are shown in Appendix Table 4. Average payments per low-skill household were calculated for 33 specific tax and revenue categories. The algorithm used for each revenue category is described below, and the calculations for each category are presented in Appendix Table 5.

Calculations for Specific Direct Benefit Expenditures

- **Social Security Benefits.** Social Security benefits for individual households were calculated using dollar benefit values reported in the CPS. Adjustments for underreporting of benefits in the CPS were made using the procedures described above.
- **Medicare.** The value of Medicare benefits per household was calculated based on data in the CPS. The CPS calculates the value of Medicare coverage for an individual as equal to the average cost per eligible beneficiary. Adjustments for misreporting of benefits in the CPS were made using the procedures described above.⁸⁶
- **Unemployment Insurance Benefits.** Unemployment insurance benefits for individual households were calculating using dollar benefit values reported in the CPS. Adjustments for underreporting of benefits in the CPS were made using the procedures described above.
- **Workmen's Compensation.** Workmen's compensation benefits for individual households were calculated using dollar benefit values reported in the CPS. Adjustments for underreporting of benefits in the CPS were made using the procedures described above.
- **Other Federal Retirement Programs.** This category includes Railroad Retirement and the Black Lung Disability Trust Fund. Benefits for individual households were calculated using dollar values reported in the CPS. Adjustments for underreporting of benefits in the CPS were made using the procedures described above.
- **Agricultural Subsidy Programs.** Low-skill immigrant households were assumed to receive zero benefit from these programs.
- **Deposit Insurance.** Net expenditure for this category is very low; low-skill immigrant households were assumed to receive benefits in proportion to their share of interest income in the CPS.

Calculations for Public Education

- **Public Primary and Secondary Education.** The average cost of public education services was calculated in a somewhat different manner since the CPS reports whether an individual is enrolled in a public school but does not report the cost of education services provided. Data from the October 2004 CPS were used to determine enrollment in public schools, and data from the Census survey of governments were used to calculate the average per pupil cost of public primary and secondary education in each state.⁸⁷ The total governmental cost of primary and secondary schooling for each household was then estimated by multiplying the number of enrolled pupils in the household by the average per pupil cost in the state where the household resides.

86. In the case of Medicare, the CPS actually slightly overreports the total cost of benefits; therefore, in this case, the adjustment procedure results in a small reduction in Medicare costs per household compared to the CPS data.

87. Data from U.S. Census Bureau, Governments Division, *Public Education Finances, 2004*, issued March 2006.

This procedure provided an estimate of total public primary and secondary education costs for the whole population and the percentage of total costs going to low-skill immigrant households. The percentage of costs going to low-skill immigrant households was multiplied by the expenditure total for primary and secondary education from independent budgetary sources; this yielded an estimate of aggregate primary and secondary public school expenditures for low-skill immigrant households. Average per household costs of public primary and secondary education were calculated by dividing the total costs of low-skill immigrant households by the overall number of such households.

- **Public Post-Secondary Education.** Public costs for post-secondary education were allocated using the same procedures used for primary and secondary education expenditures.
- **Other Education.** These state and local costs were allocated in proportion to the low-skill immigrant households' share of the general population.

Calculations for Specific Means-Tested Benefit Expenditures

Means-Tested Expenditures in General. Aggregate figures on federal means-tested expenditures were taken from Office of Management and Budget totals in *Historical Tables, Budget of the United States Government, Fiscal Year 2006*. (See Appendix Table 1.) Federal expenditures on individual means-tested programs are presented in Appendix Table 4 and were taken from Congressional Research Service, *Cash and Noncash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data, FY2002–FY2004*.

Figures on specific state and local means-tested expenditures are presented in Appendix Tables 2A, 2B, 2C, and 3 and were taken from the CRS report. These figures exclude state means-tested expenditures financed by federal grants. An estimated \$2.5 billion in state-run General Relief programs was included in the “public assistance” category in Appendix Table 4; these expenditures do not appear in the CRS report because they lack a federal component.

The total means-tested expenditure figure of \$564.7 billion, presented in Appendix Table 4, excludes means-tested veterans benefits (which are counted as public good spending) and most means-tested educational spending.⁸⁸

Medicaid Expenditures in General. The Medicaid Statistical Information System (MSIS)⁸⁹ reports Medicaid expenditures for four recipient groups: children, disabled non-elderly adults, able-bodied non-elderly adults, and elderly adults. The MSIS data further divide expenditures in each of the four recipient categories into expenditures for individuals in three residential/institutional statuses: recipients in the general population, recipients in nursing facilities, and recipients in intermediate care facilities for the mentally retarded (ICF-MR).⁹⁰ The interaction of the four recipient categories and the three residential categories yields 12 overall sub-categories for Medicaid expenditures. Separate calculations were made for each of these 12 sub-categories. The estimation of aggregate Medicaid expenditures in each of the 12 sub-categories is described in Appendix C. The methods for estimating the low-skill immigrant share of Medicaid expenditures in each of the 12 sub-categories are described below.

Medicaid Expenditures on Elderly Persons in the General Population. After the amount of Medicaid spending that went to elderly persons in the general population was determined according to the procedures in Appendix C, the share of those Medicaid expenditures that went to elderly recipients in low-skill immigrant households was calculated directly from CPS data. The following example illustrates the overall equations for estimating Medicaid expenditures for elderly persons in low-skill immigrant households in the general population, incorporating the steps in Appendix B and C. Let:

88. The means-tested spending total does include Head Start.

89. Calculations in this appendix are based on FY 2003 MSIS data, U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services, *Medicare & Medicaid Statistical Supplement, 2006*, Medicaid Tables 14.1–14.27, at www.cms.hhs.gov/MedicareMedicaidStatSupp/LT/itemdetail.asp?filterType=none&filterByDID=-99&sortByDID=1&sortOrder=ascending&itemID=CMS1190631&intNumPerPage=10 (February 20, 2007).

90. The categories labeled “residential” in this analysis are termed medical assistance service categories in the MSIS.

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M_{el} = Medicaid expenditures for elderly persons residing in low-skill immigrant households in the general population;

M_{ei} = Medicaid expenditures on the elderly in long-term care institutions;

M_{et} = Total Medicaid expenditures on the elderly according to MSIS data;

$MSIS_t$ = Total Medicaid expenditure according to MSIS data;

CRS_t = Total Medicaid expenditure according to Congressional Research Service data; and

CPS_e = Share of Medicaid expenditures for elderly persons in the CPS going to elderly persons residing in low-skill immigrant households.

Medicaid expenditures for elderly persons residing in low-skill immigrant households in the general population can then be calculated:

$$M_{el} = (M_{et} - M_{ei}) \text{ times } CRS_t / MSIS_t \text{ times } CPS_e$$

Expenditures for children, non-elderly disabled adults, and non-elderly able-bodied adults in low-skill immigrant households in the general population were calculated in a similar manner.

- **Medicaid Expenditures on Children in the General Population.** The share of Medicaid expenditures on children in the general population that went to child recipients in low-skill immigrant households was calculated directly from CPS data.
- **Medicaid Expenditures on Non-elderly Able-bodied Adults in the General Population.** The share of Medicaid expenditures on non-elderly able-bodied adult recipients in the general population that went to individuals in low-skill immigrant households was calculated directly from CPS data.
- **Medicaid Expenditures on Non-elderly Disabled Adults in the General Population.** The share of Medicaid expenditures on non-elderly disabled adults in the general population that went to individuals in low-skill immigrant households was calculated directly from CPS data.
- **Medicaid Expenditures on Elderly Recipients in Nursing Facilities.**⁹¹ The share of Medicaid spending on the elderly in nursing facilities that went to persons without a high school degree was estimated based on education data on long-term care residents in the 1999 National Long Term Care Study. This study showed that some 59 percent of elderly Medicaid recipients in nursing facilities lacked a high school degree.⁹²

No direct information is available on the immigrant share of Medicaid expenditures on elderly dropouts in nursing facilities. The immigrant share of Medicaid expenditures on elderly dropouts in nursing facilities was therefore assumed to equal the immigrant share of Medicaid expenditures on elderly dropout households in the general population as measured in the CPS: 22.7 percent. The overall low-skill immigrant share of Medicaid expenditures on elderly persons in nursing facilities was thus estimated to equal the dropout share of Medicaid expenditures on the elderly in nursing facilities (59 percent) times the estimated immigrant share among elderly dropout recipients (22.7 percent) for a total of 13.6 percent.

- **Medicaid Expenditures on Child Recipients in Nursing Facilities.** The low-skill immigrant share of total Medicaid expenditures going to child recipients in nursing homes was assumed to equal the low-skill immigrant share of Medicaid expenditure on child recipients in the general population as measured by the CPS.

91. According to the 2004 National Nursing Home Survey, some 1.49 million individuals resided in nursing facilities on any given day in the year. About 88.3 percent of the nursing facility population, or 1.32 million individuals, were elderly persons. Among the elderly in nursing facilities, an estimated 60 percent report Medicaid as a source of payment for their nursing facility expenses. From these figures, this paper estimated that, on an average day, some 790,323 elderly Medicaid recipients lived in nursing homes. The average 12-month cost of Medicaid benefits for these individuals, including ancillary medical services, would be around \$57,000. This figure is consistent with MSIS figures after adjusting for ancillary medical services and the general underreporting of expenditures in the MSIS.

92. National Long Term Care Study (NLTC), 1999 public use dataset. Produced and distributed by the Duke University Center for Demographic Studies with funding from the National Institute on Aging under Grant No. U01-AG007198. The NLTC is a nationally representative sample of individuals ages 65 years and older in long-term care facilities.

- **Medicaid Expenditures on Non-elderly Disabled Adult Recipients in Nursing Facilities.** The low-skill immigrant share of total Medicaid expenditures going to non-elderly disabled recipients in nursing homes was assumed to equal the low-skill immigrant share of Medicaid expenditure on non-elderly disabled recipients in the general population as measured by the CPS.
- **Medicaid Expenditures on Non-elderly Able-bodied Adult Recipients in Nursing Facilities.** The low-skill immigrant share of Medicaid expenditures going to non-elderly able-bodied adults in nursing homes was assumed to equal the low-skill immigrant share of Medicaid expenditure on non-elderly able-bodied adults in the general population as measured in the CPS.
- **Medicaid Expenditures on Child Recipients in Intermediate Care Facilities for the Mentally Retarded (ICF-MR).** Medicaid spending on children from low-skill immigrant households residing in ICF-MR is assumed to be proportionate to the share of Medicaid spending on children going to low-skill immigrant households in the general population as measured in the CPS.
- **Medicaid Expenditures on Elderly Recipients in Intermediate Care facilities for the Mentally Retarded (ICF-MR).** The number of mentally handicapped adults who immigrate to the U.S. is presumably very small; therefore, the immigrant share of Medicaid spending on adults in ICF-MR was set at zero.
- **Medicaid Expenditures on Non-elderly Disabled Adult Recipients in Intermediate Care Facilities for the Mentally Retarded (ICF-MR).** The number of mentally handicapped adults who immigrate to the U.S. is presumably very small; therefore, the immigrant share of Medicaid spending on adults in ICF-MR was set at zero.
- **Medicaid Expenditures on Non-elderly Able-bodied Adult Recipients in Intermediate Care Facilities for the Mentally Retarded (ICF-MR).** The number of mentally handicapped adults who immigrate to the U.S. is presumably very small; therefore, the immigrant share of Medicaid spending on adults in ICF-MR was set at zero.
- **Food Stamps.** The Food Stamp Program is a means-tested program. Benefits for individual households were calculating using dollar benefit values reported in the CPS. Adjustments for underreporting of food stamp benefits in the CPS were made using the procedures described above.
- **Supplemental Security Income (SSI).** SSI is a means-tested program. SSI benefits for individual households were calculated using dollar benefit values reported in the CPS. Adjustments for underreporting of benefits in the CPS were made using the procedures described above.
- **The Earned Income Tax Credit (EITC).** The EITC is a means-tested program supporting low-income working families with children. Dollar values of EITC benefits are calculated by the Census for each eligible household and imputed into the CPS data files. For the present analysis, EITC benefits for individual households were based on the dollar benefit values reported in the CPS. Adjustments for underreporting of EITC benefits in the CPS were made using the procedures described above. Reductions for non-receipt of EITC by illegal immigrant households were made according the procedures described in Appendix A.
- **The Additional Child Tax Credit (ACTC).** The ACTC is a means-tested refundable tax credit supporting low-income working families with children. Dollar values of ACTC benefits are calculated by the Census for each eligible household and imputed into the CPS data files. For the present analysis, ACTC benefits for individual households were based on the dollar benefit values reported in the CPS. Adjustments for underreporting of ACTC benefits in the CPS were made using the procedures described above. Reductions for non-receipt of ACTC by illegal immigrant households were made according the procedures described in Appendix A.
- **Public Housing Subsidies.** There are a number of federal means-tested housing benefit programs. Public housing benefits for individual households were determined using dollar benefit values reported in the CPS. Adjustments for underreporting of benefits in the CPS were made using the procedures described above.

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- **Public Assistance.** Public assistance covers cash benefits from the Temporary Assistance to Needy Families (TANF) program and General Relief programs.⁹³ Public assistance benefits were determined for individual households using dollar benefit values reported in the CPS. Adjustments for underreporting of benefits in the CPS were made using the procedures described above.
- **Energy Assistance.** Energy assistance is a means-tested benefit program. Benefits for individual households were determined using dollar benefit values reported in the CPS. Adjustments for underreporting of benefits in the CPS were made using the procedures described above.
- **Women, Infants and Children (WIC) Nutrition Program.** WIC is a means-tested program subsidizing food consumption for low-income pregnant women and low-income mothers with infants and small children. The CPS reports receipt of WIC benefits by households but gives no dollar value. The share of total WIC spending going to low-skill immigrant households was assumed to equal the share of households receiving WIC recipients in the CPS that were low-skill immigrant households.
- **Day Care Assistance.** Federal, state, and local governments provide day care assistance to low-income parents through a variety of means-tested programs. The CPS reports receipt of day care assistance by households but gives no dollar value. The share of total day care spending going to low-skill immigrant households was assumed to equal the share of households receiving day care in the CPS that were low-skill immigrant households.
- **Indian Health Services.** Indian Health is a means-tested aid program. The CPS reports receipt of Indian Health benefits by households but gives no dollar value. The share of total Indian Health spending going to low-skill immigrant households was assumed to equal the share of households receiving Indian Health aid in the CPS that were low-skill immigrant households.
- **Training.** The CPS reports whether an individual participates in government job training programs but assigns no cost to this participation. The share of total means-tested training spending going to low-skill immigrant households was assumed to equal the share of low-skill immigrant households in the CPS reporting receipt of government training.
- **Other Means-Tested Aid.** Altogether, the federal government operates some 70 different means-tested aid programs. The CPS contains data on household utilization of 12 of the largest programs, which cover 93 percent of overall means-tested spending, but provides no data on the smaller programs. Allocation of benefits from the remaining means-tested programs was estimated in the following manner.

First, the share of reported total spending for the 11 means-tested programs covered by the CPS going to households headed by immigrants without a high school degree was determined.

Second, the low-skill immigrant households were assumed to receive a share of the means-tested benefits from the remaining unreported programs equal to their share of all expenditures on the reported means-tested programs in the CPS.

Third, once the estimated total benefits from these residual programs received by low-skill immigrant households as a whole was calculated, an average value per low-skill immigrant household could be computed.

Specific Calculations for Population-Based Programs

- **Highways and Roads.** Utilization of roads, highways, and parking facilities by low-skill immigrant households was assumed to be proportionate to their share of gasoline expenditures, estimated from the CEX according to the procedures described above.

93. The state and local expenditures on public assistance presented in Appendix Table 4 include data and state TANF spending taken from the Congressional Research Service and an estimated \$2.5 billion in state and local spending on General Relief.

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- **Mass Transit Subsidies.** Low-skill immigrant households were assumed to utilize mass transit in proportion to their estimated share of expenditures on public transportation, estimated from the CEX according to the procedures described above.
- **Air Transportation.** Low-skill immigrant households were assumed to receive minimal benefit from government spending on airports and air travel. The low-skill households' share of this spending was arbitrarily set at 0.5 percent of total expenditures.
- **Sea and Inland Port Facilities and Other Ground Transportation.** The share of these expenditures benefiting low-skill immigrant households was assumed to be proportionate to their share of total consumption estimated from the CEX according to the procedures described above.
- **Other Federal Ground Transportation.** Low-skill immigrant households were assumed to receive none of the benefits of this spending.
- **Justice, Police, and Public Safety.** These programs provide a general benefit to entire communities. Expenditures were assumed to have a uniform per capita value across the entire population. The share of expenditures benefiting low-skill immigrant households was assumed to be equal to their share of the total population.
- **Population-Based Expenditures on Resources, Sanitation, and the Environment.** This category covers parks and recreation, sewage and waste management, pollution control, natural resources, and public utility expenditures that are not financed through user fees. Expenditures were assumed to have a uniform per capita value across the entire population. The share of expenditures benefiting low-skill immigrant households was assumed to be equal to their share of the total population.
- **Public Utility Spending for Water Supply.** These expenditures represent expenditures on public water supply beyond those financed through user fees. The low-skill immigrant households' share of this spending was assumed to equal the group's share of expenditures on water estimated from the CEX according to the procedures described above.
- **Public Utility Spending for Electric Power Supply.** These expenditures represent expenditures on public electric power beyond those financed through user fees. The low-skill immigrant households' share of this spending was assumed to equal the group's share of expenditures on electricity estimated from the CEX according to the procedures described above.
- **Public Utility Spending for Gas Supply.** These expenditures represent expenditures on public gas supply beyond those financed with user fees. The low-skill immigrant households' share of this spending was assumed to equal the group's share of expenditures on gas supply estimated from the CEX according to the procedures described above.
- **Pollution Control and Abatement.** The analysis assumes that expenditures on pollution control would be proportionate to a household's propensity to pollute and that a household's propensity to pollute would be proportionate to its share of overall consumption. In consequence, low-skill immigrant households' share of pollution control expenditure would be proportionate to the group's share of total consumption estimated from the CEX according to the procedures described above.
- **General Health.** This category includes spending on Mental Health, Substance Abuse, and Public Health. These expenditures were assumed to have a uniform per capita value across the entire population. The share of expenditures benefiting low-skill immigrant households was assumed to be equal to their share of the total population.
- **Consumer and Occupational Health.** These expenditures were assumed to have a uniform per capita value across the entire population. The share of expenditures benefiting low-skill immigrant households was assumed to be equal to their share of the total population.

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- **Protective Inspection and Regulation.** These expenditures were assumed to have a uniform per capita value across the entire population. The share of expenditures benefiting low-skill immigrant households was assumed to be equal to their share of the total population.
- **Community Development.** These expenditures were assumed to have a uniform per capita value across the entire population. The share of expenditures benefiting low-skill immigrant households was assumed to be equal to their share of the total population.
- **Miscellaneous Spending.** This category includes labor services, activities to advance commerce, postal service, and libraries. These expenditures were assumed to have a uniform per capita value across the entire population. The share of expenditures benefiting low-skill immigrant households was assumed to be equal to their share of the total population.

Specific Calculations for General Government Support Services for Other Government Programs

- **General Government/Administrative Support Functions at the State and Local Levels.** This category consists mainly of administrative services in support of other government functions. It includes tax and revenue collection, lottery administration, budgeting, central administration, legislative functions, trust fund administration, central administration, and legislative functions. These activities do not provide benefits or services to the general public, but rather provide support for other programs that do directly affect the public. For example, tax collection does not directly benefit anyone but is necessary to provide funding for all other programs that do provide benefits and services to the public. Since the purpose of these support functions is to sustain other government programs, the costs of administrative support services were allocated according to the share of overall state and local direct benefits, means-tested benefits, education, and population-based services received by a household.
- **General Government/Administrative Support Functions at the Federal Level.** Like the previous category, this category includes tax collection activity, legislative functions, and other administrative support activities; and like the previous category, these activities do not directly benefit the public, but rather sustain all other government activities. In FY 2004, some 27 percent of total federal spending was allocated to pure public good functions. Therefore, 27 percent of federal general government and administrative support spending was estimated to be in support of pure public good functions. The remaining spending was allocated among households according to the share of all federally funded direct benefits, means-tested benefits, education, and population-based services received by a household.

Specific Calculations for Financial Obligations Relating to Past Government Activities

As explained in Appendix A, the entry of low-skill immigrants into the U.S. does not raise the costs of interest on public or other financial obligations relating to past government activity (at least in the intermediate term) for other taxpayers. As a consequence, expenditures relating to interest and other obligations are not included in the fiscal deficits calculations for low-skill immigrants presented in this paper.

Specific Calculations for Public Goods Expenditure

This category includes spending on national defense, international affairs, science and scientific research, veterans programs, natural resources and the environment, and financial obligations relating to past public goods spending. As explained in Appendices A and D, the entry of low-skill immigrants into the U.S. does not raise the costs of public goods for other U.S. taxpayers; therefore, public goods expenditures are not included in the fiscal deficits calculations presented in this paper.

Specific Calculations for Taxes and Revenues

Specific Calculations for Federal Taxes and Revenues

- **Federal Individual Income Tax.** The distribution of federal income taxes was calculated from CPS data, which showed that low-skill immigrant families paid 0.81 percent of federal income tax. The illegal immigrant adjustment factor of 18.7 percent, described in Appendix A, was then subtracted from this coefficient, reducing the low-skill immigrant share of federal individual income tax to 0.66. Adjustments for underreporting of tax payments in the CPS were made using the procedures used for adjusting benefits for underreporting as described in Appendix A.
- **Federal Insurance Contribution Act (FICA) Taxes.** Employees were assumed to pay both the “employer” and “employee” share of FICA taxes. The Census imputes FICA tax values into the CPS based on reported earnings. Data on the distribution of FICA tax were taken from the CPS, which showed that low-skill immigrant families paid 2.35 percent of this tax in FY 2004. The illegal immigrant adjustment factor of 18.7 percent, described in Appendix A, was then subtracted from this coefficient, reducing the low-skill immigrant share of federal individual income tax to 1.91 percent. Adjustment for underreporting of the tax was done in the manner previously described.
- **Federal Corporate Income Tax.** There are many conflicting opinions on the incidence of corporate income tax. The tax may be paid by owners, workers, consumers, or a combination of all three. For example, the Congressional Budget Office has traditionally assumed that the burden of this tax was fully borne by the owners of businesses; however, a recent CBO analysis concluded that in a competitive international environment, 70 percent of the cost of this tax was in fact shifted to workers.⁹⁴ As a whole, workers will experience lower wages as a result of the tax.

This study uses the conclusions of this recent CBO analysis, assigning 70 percent of the federal corporate income tax burden to workers and 30 percent to owners; this allocation increases the estimate of the average taxes paid by low-skill immigrant households. The distribution of the workers’ share of the tax burden was estimated on the basis of the distribution of earnings reported in the CPS. The share of federal corporate income tax borne by workers in low-skill immigrant households was assumed to be proportionate to the share of total earnings reported by low-skill immigrant households in the CPS. The distribution of the owners’ share of the tax burden was estimated on the basis of the distribution of property income (dividends, interest, and rent) in the CPS; the share borne by workers in low-skill immigrant households was assumed to be proportionate to the share of total property income reported by low-skill immigrant households in the CPS.

- **Federal Receipts for Unemployment Insurance.** This tax was assumed to fall on workers. The share paid by low-skill workers was assumed to equal their share of the number of earners, which was 4.2 percent. The illegal immigrant adjustment factor of 18.7 percent, described in Appendix A, was then subtracted from this coefficient, reducing the low-skill immigrant share of unemployment insurance payments to 3.4 percent.
- **Federal Highway Trust Fund Taxes.** This tax was assumed to fall half on the private owners of motor vehicles and half on businesses. The business share was further assumed to fall half on consumers and half on owners. Overall, the tax was assumed to fall 50 percent on private motor vehicle operators, 25 percent on consumers, and 25 percent on owners of businesses.⁹⁵ The portion of the tax paid by private motor vehicle operators that fell on low-skill immigrant households was assumed to equal those households’ share of gasoline consumption as estimated from the CEX. The portion of the tax paid by consumers that fell on low-skill immigrant households was assumed to be proportionate to those households’ share of total consumption as estimated from the CEX. The portion of the tax paid by business owners that fell on low-skill immigrant households was assumed to be proportionate to those households’ share of property income (interest, dividends, and rent) as reported in the CPS.

94. Randolph, “International Burdens of the Corporate Income Tax.”

95. The estimate that half of this tax was paid by business was provided by the Tax Foundation.

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- **Federal Airport and Airways Taxes.** Low-skill immigrant households probably use air travel infrequently. They were assumed to pay 0.5 percent of these taxes and to utilize a corresponding 0.5 percent of government air travel expenditures.
- **Federal Excise Tax on Alcohol.** This tax was assumed to fall on the consumers of alcohol. The share of the tax borne by low-skill immigrant households was assumed to be proportionate to those households' share of the total consumption of alcohol products as estimated from the CEX.
- **Federal Excise Tax on Tobacco.** This tax was assumed to fall on the consumers of tobacco products. The share of the tax borne by low-skill immigrant households was assumed to be proportionate to those households' share of the total consumption of tobacco products as estimated from the CEX.
- **Federal Excise Tax on Telephones.** This tax was assumed to fall on telephone users. The share of the tax borne by low-skill immigrant households was assumed to be proportionate to those households' share of the total consumption of telephone products as estimated from the CEX.
- **Federal Excise Tax on Transportation Fuels.** This tax was assumed to fall on the consumers of transportation fuels. The share of the tax borne by low-skill immigrant households was assumed to be proportionate to those households' share of the total consumption of fuels as estimated from the CEX.
- **Other Federal Excise Taxes.** These taxes were assumed to fall on consumers in general. The share of tax borne by low-skill immigrant households was assumed to be proportionate to those households' share of the total consumption as estimated from the CEX.
- **Federal Gift and Estate Taxes.** Low-skill immigrant households were assumed to pay none of these taxes.
- **Federal Customs, Duties, and Fees.** These taxes were assumed to fall on consumers. The share of tax borne by low-skill immigrant households was assumed to be proportionate to those households' share of the total consumption as estimated from the CEX.

Specific Calculations for State and Local Taxes and Revenues

- **State Individual Income Tax.** This tax was estimated in the same manner as the federal individual income tax. State income tax data reported in the CPS are calculated using the tax rules of the individual states. The distribution of state individual income taxes was calculated from CPS data, which showed that low-skill immigrant families paid 1.12 percent of these taxes. The illegal immigrant adjustment factor of 18.7 percent, described in Appendix A, was then subtracted from this coefficient, reducing the low-skill immigrant share of state individual income taxes to 0.91 percent. Tax payments recorded in the CPS were adjusted for underreporting according to the procedures described in Appendix A.
- **State Corporate Income Tax.** This tax was estimated in the same manner as the federal corporate income tax.
- **State and Local Property Taxes.** Property taxes were assumed to fall partly on businesses and partly on owner-occupied and rented dwellings. The tax falling on businesses was assumed to be partly borne by owners and partly passed on to consumers. Overall, 50 percent of the tax was allocated to households as home owners and renters; the share of this tax paid by low-skill immigrant households was assumed to be proportionate to these households' estimated share of payments for shelter costs in the CEX. Another 25 percent of property taxes was assumed to be paid by owners of capital; the share paid by low-skill immigrant households was assumed to be proportionate to these households' share of dividends, interest, and rent income in the CPS. A final 25 percent of property tax was assumed to be passed on from businesses to consumers; the share of this burden borne by low-skill immigrant households was assumed to be equal to their share of total consumption as estimated from the CEX.
- **State and Local General Sales Taxes.** These taxes were assumed to fall on consumers. The share paid by low-skill immigrant households was assumed to be proportionate to their share of the consumption of non-exempt goods and services as estimated from the CEX according to the procedures described in

Appendix A. Items routinely exempted from sales tax coverage include food eaten at home, housing expenditures, utilities, fuels, gas and motor oil, public services, health care, education, cash contributions, and personal insurance and pension payments.⁹⁶

- **State and Local Tax on Motor Fuel.** This tax was calculated in the same manner as the federal Highway Trust Fund taxes.
- **State and Local Sales Tax on Alcohol.** This tax was estimated in the same manner as the federal excise tax on alcohol.
- **State and Local Sales Tax on Tobacco.** This tax was estimated in the same manner as the federal excise tax on tobacco.
- **Motor Vehicle License Fees.** The share of these fees paid by low-skill immigrant households was assumed to equal these households' share of spending on licenses as estimated from the CEX according to the procedures described in Appendix A.
- **Public Utilities Tax.** The share of this tax paid by low-skill immigrant households was assumed to equal these households' share of total utility expenditures as estimated from the CEX according to the procedures described in Appendix A.
- **Other Selective State and Local Sales Taxes.** The share of these taxes paid by low-skill immigrant households was assumed to equal these households' share of total consumption estimated from the CEX according to the procedures described in Appendix A.
- **Other State and Local Taxes Including Estate, Stock Transaction, and Severance Taxes.** Low-skill immigrant households are assumed to pay few of these taxes.
- **State Taxes for Unemployment Insurance.** These taxes, like FICA taxes, were assumed to fall on workers. The share of taxation borne by low-skill immigrant households was assumed to equal their share of the total number of earners reported in the CPS. The distribution of state unemployment insurance taxes was calculated from CPS data, which showed that low-skill immigrant families would pay 4.2 percent of these taxes based on their share of total workers. The illegal immigrant adjustment factor of 18.7 percent, described in Appendix A, was then subtracted from this coefficient, reducing the low-skill immigrant share of state individual income taxes to 3.4 percent.
- **Other Insurance Trust Fund Revenues.** The share of these revenues paid by low-skill immigrant households was assumed to be proportionate to the number of persons in low-skill immigrant households as a share of the general population.
- **State Taxes for Workmen's Compensation.** These taxes, like FICA taxes, were assumed to fall on workers. The share of taxation borne by low-skill immigrant households was assumed to equal their share of the total number of earners reported in the CPS. The distribution of state individual income taxes was calculated from CPS data, which showed that low-skill immigrant families would pay 4.2 percent of these taxes based on their share of total workers. The illegal immigrant adjustment factor of 18.7 percent, described in Appendix A, was then subtracted from this coefficient, reducing the low-skill immigrant share of state individual income taxes to 3.4 percent.
- **Employee Contributions to State and Local Government Retirement Funds.** The distribution of these revenue contributions was assumed to be proportionate to the distribution of state and local employees participating in employer pension plans according to CPS data.
- **State Lottery Receipts.** An important source of government revenue paid by households headed by persons without a high school degree is the purchase of state lottery tickets. A major study of the sale of state lottery tickets to different socioeconomic groups shows that per capita spending on state lottery tickets by adult high school dropouts was twice that of other adults.⁹⁷ However, a large part of these

96. Based on information provided by the Tax Foundation.

purchases is generated by low-skill black households, which form only a small part of the low-skill immigrant population. By contrast, Hispanics, who form a very large part of the low-skill immigrant population, have average per capital levels of lottery purchases.

In the present analysis, lottery spending by per adult in households headed by immigrants without a high school degree was assumed to be 50 percent higher than the purchase rate of adults in the general population. The share of state lottery revenue contributed by low-skill immigrant households was calculated as $1.5h_l / (0.5h_l + h_t)$, where h_l is the number of low-skill immigrant households and h_t is the number of households in the total population.

- **Earnings on Investments Held in Employee Retirement Trust Funds.** These state and local revenues represent the property income received by government trust funds as owners of capital. These earnings are not taxes and cannot be allocated among households.
- **State and Local Interest Earnings and Earnings from the Sale of Property.** These revenues represent the property income received by government as owner of capital and other property. These earnings are not taxes and cannot be allocated among households.
- **Special Assessments.** Low-skill immigrant households were assumed to pay none of these taxes.
- **Other State and Local Revenue.** This revenue includes dividends on investment, recovery of expenditures made in prior years, and other non-tax revenue. Low-skill immigrant households were assumed to fund none of this revenue.

97. Charles T. Clotfelter, Philip J. Cook, Julie A. Edell, and Marian Moore, "State Lotteries at the Turn of the Century: Report to the National Gambling Impact Study Commission," Duke University, April 23, 1999.

Appendix C Medicaid Expenditures

Calculating Medicaid expenditures is challenging because about one-quarter of Medicaid spending goes for care for persons in nursing homes and other long-term care and intermediate-care institutions; these individuals are not included in the Current Population Survey. To obtain an accurate account of Medicaid spending, one must carefully separate institutional from non-institutional expenditures and estimate the share of institutional expenditures going to low-skill immigrants.

The Medicaid expenditure calculations in the paper were based on data from the Medical Statistical Information System (MSIS) for 2003, the most recent year available.⁹⁸ MSIS separates Medicaid expenditures into four separate recipient categories: elderly, children, non-elderly able-bodied adults, and non-elderly disabled adults. MSIS also separates expenditures into three institutional/residential statuses: residence in the general population, residence in nursing facilities, and residence in Intermediate Care Facilities for the Mentally Handicapped (ICF-MR). Combining the four recipient categories with the three residential statuses yields a total of 12 expenditure sub-categories, each of which has been calculated separately in this paper. Expenditures in each of these 12 sub-categories were calculated by the following steps.

Step One: Allocation of Expenditures to Persons of Unknown Recipient Status. A portion of the Medicaid expenditures goes to individuals whose recipient category is unidentified in the MSIS. These anonymous expenditures were imputed into the four normal recipient categories pro rata according to the distribution of MSIS expenditures to clearly identified recipients.

Step Two: Allocation of Institutional Long-term Care Expenditures to Individuals of Unknown Recipient Status. Within both nursing facility and ICF-MR expenditure categories, a portion of Medicaid spending goes to individuals whose recipient category is unidentified. These expenditures were imputed into the four normal recipient categories pro rata according to the distribution of MSIS nursing facility and ICF-MR expenditures to clearly identified recipients.

Step Three: Inclusion of Ancillary Medical Costs in Institutional Care. MSIS expenditures for care in nursing facilities (NF) and Intermediate Care Facilities (ICF-MR) cover only the cost of residential care in those institutions and do not include Medicaid payments for ancillary medical services, such as drugs, physician, lab, and X-ray services, received by recipients in institutional care. Ancillary expenditures as a percent of institutional long-term care spending vary by recipient group. Ancillary expenditures on children have been estimated to be about 22 percent of this group's facility institutional long-term care costs, about 64 percent for non-elderly able-bodied adults, about 25 percent for non-elderly disabled adults, and about 12 percent for elderly adults.⁹⁹ The MSIS figures for expenditures on individuals in institutions were adjusted to include ancillary medical services funded by Medicaid for those individuals; this yielded an adjusted institutional long-term care expenditure total (ALCET) for each of the four recipient categories in nursing facilities (NF) and each of the four recipient categories in ICF-MR.

Step Four: Calculation of Medicaid Costs for the General Population. The ALCET for elderly recipients in NF and ICF-MR was subtracted from the overall MSIS expenditure total for elderly recipients (as adjusted in step three). This yielded an estimate of residual Medicaid expenditures on elderly recipients in the general (non-institutional) population covered by the CPS. The same procedure was applied to the other three recipient groups in the general population: children, non-elderly able-bodied adults, and non-elderly disabled adults.

98. Calculations in this appendix are based on FY 2003 MSIS data, U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services, *Medicare & Medicaid Statistical Supplement, 2006*, Medicaid Tables 14.1–14.27, at www.cms.hhs.gov/MedicareMedicaidStatSupp/LT/itemdetail.asp?filterType=none&filterByDID=-99&sortByDID=1&sortOrder=ascending&itemID=CMS1190631&intNumPerPage=10 (February 20, 2007).

99. Anna Sommers *et al.*, "Medicaid's Long-Term Care Beneficiaries: An Analysis of Spending Patterns," Kaiser Commission on Medicaid and the Uninsured, 2006, Table 2. The Kaiser study used MSIS 2002 data; see Tables 4, 9, 10a and 10b.

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Step Five: Estimate of the Percent of Medicaid Spending Going to the 12 Sub-categories. The completion of steps three and four generated MSIS expenditures in each of the 12 recipient/residential sub-categories. These figures were converted into percentages of total MSIS Medicaid spending. The results are shown in Appendix Table C1.

Beneficiary Categories		Institutional Categories		
	<i>Expenditures on Persons in the General/ Non-institutional Population</i>	<i>Expenditures on Persons in Nursing Facilities</i>	<i>Expenditures on Persons in Intermediate Care Facilities for the Mentally Retarded (ICF-MR)</i>	<i>Expenditures on Whole Population</i>
Elderly	9.33%	14.99%	0.36%	24.68%
Disabled adults	35.29%	4.88%	5.38%	45.55%
Able-bodied adults	11.93%	0.03%	0.01%	11.97%
Children	17.76%	0.02%	0.02%	17.80%
Total	74.31%	19.92%	5.77%	100.00%

Note: Based on Total FY2003 Medicaid Medical Assistance Payment Expenditures (MSIS).

Step Six: Adjustment of Aggregate Medicaid Spending to Equal FY 2004 CRS Levels. MSIS data show aggregate Medicaid expenditures of \$233 billion in FY 2003. MSIS expenditures fall short of actual Medicaid expenditures because MSIS does not include disproportionate provider payments, some supplemental payments, and administrative costs. In addition, the MSIS expenditure calculations for the different recipient groups are based on FY 2003 data, which are the most recent available, and thus obviously fall short of the FY 2004 levels. The most comprehensive Medicaid expenditures come from the Congressional Research Service, which stated that aggregate federal and state Medicaid expenditures equaled \$300.3 billion in FY 2004.¹⁰⁰ The percent share expenditure total for each of the 12 recipient sub-categories in Appendix Table C1 were multiplied by the CRS expenditure total of \$300.3 billion to produce the aggregate spending figures for each of the 12 sub-categories presented in Appendix table C2. This adjustment assumes that the difference between MSIS and CRS expenditures is distributed proportionally across the 12 sub-categories.

Beneficiary Categories		Institutional Categories		
	<i>Expenditures on Persons in the General/ Non-institutional Population</i>	<i>Expenditures on Persons in Nursing Facilities</i>	<i>Expenditures on Persons in Intermediate Care Facilities for the Mentally Retarded (ICF-MR)</i>	<i>Expenditures on Whole Population</i>
Elderly	28,018	45,015	1,081	74,114
Disabled adults	105,976	14,655	16,156	136,787
Able-bodied adults	35,826	90	30	35,946
Children	53,333	60	60	53,453
Total	223,153	59,820	17,327	300,300

The Medicaid spending aggregates in Appendix Table C2 for the 12 sub-categories are used in Appendix Table 5 as the bases for calculating expenditures for low-skill immigrant households in each sub-category. The methods for estimating the low-skill immigrant share of expenditures in each of the 12 sub-categories are described in Appendix B.

100. Congressional Research Service, *Cash and Noncash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data, FY 2002–FY 2004*, March 27, 2006, p. 234. The Congressional Research Service provides the same spending totals as CMS Form-64 of the Department of Health and Human Services. CMS-14 Medicaid expenditure data are substantially higher than those reported in MSIS. CMS Form-64 includes a number of medical services expenditures, such as disproportionate payments to service providers and supplemental payments, that MSIS does not report. In FY 2003, Medicaid medical services expenditures as reported in CMS Form-64 exceeded expenditures reported in MSIS by some \$29.37 billion. CMS Form-64 also reported an additional \$13.58 billion in state and local administration costs, which MSIS did not include. When these two items are added to the \$233.20 billion medical services expenditures as reported by MSIS, the aggregate Medicaid expenditures in FY 2003 totaled \$276.16 billion. This figure is consistent with the aggregate Medicaid expenditure figure reported by CRS.

Appendix D

Pure Public Goods, Private Consumption Goods, and Population-Based Services

Fiscal distribution analysis seeks to determine the government benefits received by a particular group compared to taxes paid. A necessary first step in this process is to distinguish government programs that provide “pure public goods” as opposed to “private goods.” These two types of expenditures have very different fiscal implications.

Economist Paul Samuelson is credited with being the first to develop the theory of public goods. In his seminal 1954 paper “The Pure Theory of Public Expenditure,”¹⁰¹ Samuelson defined a pure public good (or what he called in the paper a “collective consumption good”) as a good “which all enjoy in common in the sense that each individual’s consumption of such a good leads to no subtractions from any other individual’s consumption of that good.” By contrast, a “private consumption good” is a good that “can be parceled out among different individuals.” Its use by one person precludes or diminishes its use by another.

A classic example of a pure public good would be a lighthouse: The fact that any particular ship perceives the warning beacon does not diminish the usefulness of the lighthouse to other ships. A typical example of a private consumption good is a hamburger: When one person eats it, it cannot be eaten by others.

Formally, all pure public goods will meet two criteria:¹⁰²

- **Non-rivalrous Consumption.** Everyone in a given community can use the good; its use by one person will not diminish its utility to others.
- **Zero-cost Extension to Additional Users.** Once a pure public good has been initially produced, it requires no extra cost for additional individuals to benefit from the good. Expansion of the number of beneficiaries does not reduce its utility to any initial user and does not add new costs of production. As Nobel prize–winning economist James Buchanan explains, with a pure public good, “Additional consumers may be added at zero marginal cost.”¹⁰³

The second criterion is a direct corollary of the first. If consumption of a good is truly non-rivalrous, then adding extra new consumers will not reduce utility or add costs for the initial consumers.

The distinction between collective and private consumption goods can be illustrated by considering the difference between a recipe for pie and an actual piece of pie. A recipe for pie is a public consumption good in the sense that it can be shared with others without reducing its usefulness to the original possessor; moreover, the recipe can be disseminated to others with little or no added cost. By contrast, an actual slice of pie is a private consumption good: Its consumption by one person bars its consumption by another. Efforts to expand the number of individuals utilizing the pie slice will either reduce the satisfaction of each user (as each gets a smaller portion of the initial) or entail new costs (to produce more pie).

Examples of Governmental Pure Public Goods

Pure public goods are relatively rare. One prime example of a governmental public good is medical research. If research funded by the National Institutes of Health produces a cure for cancer, all Americans will benefit from this discovery. The benefit received by one person is not reduced by the benefit received by others; moreover, the value of the discovery to each individual would remain the same even if the U.S. population doubled.

Another notable example of a pure public good is defense expenditure. The utility of an Army division or an aircraft carrier lies in its effectiveness in combating foreign threats to America. In most respects, one person’s benefit from defense strength is not reduced because others also benefit. The military effectiveness of an Army divi-

101. Paul A. Samuelson, “The Pure Theory of Public Expenditure,” *Review of Economics and Statistics*, Vol. 36, No. 4 (1954), pp. 387–389.

102. A third criterion is nonexclusion from benefit; it is difficult to deny members of a community an automatic benefit from the good. This aspect of public goods is not critical to the fiscal allocation issues addressed in this paper.

103. James M. Buchanan, *The Demand and Supply of Public Goods*, Liberty Fund, Library of Economics and Liberty, p. 5.4.3, at www.econlib.org/library/Buchanan/buchCv5Contents.html (March 6, 2007).

sion or an aircraft carrier is not reduced just because the size of the civilian population being defended is increased.

Finally, individuals may receive psychic satisfaction from the preservation of wildlife or wilderness areas. This psychic satisfaction is not reduced because others receive the same benefit and is not directly effected by changes in the population. By contrast, enjoyment of a national park may be reduced if population increases lead to crowding. In consequence, general activities to preserve species may be considered a public good, while provision of parks is a private good.

Pure Public Goods Compared to Population-Based Goods

Many government services that are dubbed public goods are not true public goods. Economists Thomas MaCurdy and Thomas Nechyba state that “relatively few of the goods produced by [the] government sector are pure public goods, in the sense that the cost of providing the same level of the good is invariant to the size of the population.”¹⁰⁴ In other words, many government services referred to conventionally as “public goods” need to be increased at added expense to the taxpayer as the population increases, thereby violating the criterion of zero-cost extension to additional users.

For example, police protection is often incorrectly referred to as a “public good.” True, police do provide a diffuse service that benefits nearly all members of a community, but the benefit that each individual receives from a policeman is reduced by the claims other citizens may make on the policeman’s time. Someone living in a town of 500 protected by a single policeman gets far more protection from that policeman than would another individual protected by the same single policeman in a town of 10,000.

The National Academy of Sciences explains that government services that generally need to be increased as the population increases are not real public goods. It refers to these services as “congestible” goods: If such a program remains fixed in size as the number of users increases, it may become “congested,” and the quality of service will consequently be reduced. An obvious example would be highways. Other examples of “congestible” goods are sewers, parks, fire departments, police, courts, and mail service.¹⁰⁵ These types of programs are categorized as “population-based” services in the paper.

In contrast to population-based services, governmental pure public goods have odd fiscal properties. The fact that a low-income person who pays little or nothing in taxes receives benefit from government defense or medical research programs does not impose added cost or reduce the utility of those programs to other taxpayers. Therefore, it is inaccurate to say that the non-taxpayers’ use of these programs imposes a burden on other taxpayers. On the other hand, non-taxpayers or individuals who pay little in taxes are “free riders” on public goods in the sense that they benefit from a good for which they have not paid.

The entry of low-skill immigrants into the U.S. does not increase the costs or reduce the utility of public goods for other taxpayers; therefore, public goods spending is not included in the net fiscal deficit calculations for low-skill immigrant households presented in this paper. By contrast, entry of low-skill immigrants does increase costs and reduce the utility of “congestible” or population-based services for other taxpayers; therefore, those expenditures have been included in the net fiscal deficit calculations for low-skill immigrant households presented in this paper.

104. Thomas MaCurdy, Thomas Nechyba, and Jay Bhattacharya, “An Economic Framework for Assessing the Fiscal Impacts of Immigration,” in James P. Smith and Barry Edmonston, *The Immigration Debate: Studies on the Economic, Demographic and Fiscal Effects of Immigration* (Washington, D.C.: National Academy Press, 1998), p. 16.

105. National Research Council, *The New Americans*, p. 303.

Federal Outlays—Fiscal Year 2004

Function and Subfunction	Millions of Dollars	Program Type
050 National Defense:		
051 Department of Defense—Military:		
Military Personnel	113,576	Public Good
Operation and Maintenance	174,045	Public Good
Procurement	76,216	Public Good
Research, Development, Test, and Evaluation	60,759	Public Good
Military Construction	6,312	Public Good
Family Housing	3,905	Public Good
Other	1,708	Public Good
051 Subtotal, Department of Defense—Military	436,521	Public Good
053 Atomic Energy Defense Activities	16,625	Public Good
054 Defense-related Activities	2,762	Public Good
Total, National Defense	455,908	Public Good
150 International Affairs:		
151 International Development and Humanitarian Assistance	13,825	Public Good
152 International Security Assistance	8,369	Public Good
153 Conduct of Foreign Affairs	7,897	Public Good
154 Foreign Information and Exchange Activities	1,141	Public Good
155 International Financial Programs	-4,341	Public Good
Total, International Affairs	26,891	Public Good
250 General Science, Space, and Technology:		
251 General Science and Basic Research	8,416	Public Good
252 Space Flight, Research, and Supporting Activities	14,637	Public Good
Total, General Science, Space and Technology	23,053	Public Good
270 Energy:		
271 Energy Supply	-1,555	
272 Energy Conservation	926	
274 Emergency Energy Preparedness	158	
276 Energy Information, Policy, and Regulation	305	
Total, Energy	-166	Population-based Services
300 Natural Resources and Environment:		
301 Water Resources	5,571	Public Good
302 Conservation and Land Management	9,758	Public Good
303 Recreational Resources	2,963	Population-based Services
304 Pollution Control and Abatement	8,485	Population-based Services
306 Other Natural Resources	3,948	Public Good
Total, Natural Resources and Environment	30,725	
350 Agriculture:		
351 Farm Income Stabilization	11,186	Direct Benefit
352 Agricultural Research and Services	4,254	Public Good
Total, Agriculture	15,440	
370 Commerce and Housing Credit:		
371 Mortgage Credit	2,659	Direct Benefit
372 Postal Service	-4,070	Population-based Services
373 Deposit Insurance	-1,976	Direct Benefit
376 Other Advancement of Commerce	8,660	Population-based Services
Total, Commerce and Housing Credit	5,273	

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Federal Outlays—Fiscal Year 2004 (continued)

Function and Subfunction	Millions of Dollars	Program Type
400 Transportation:		
401 Ground Transportation		
Highways and Roads	32,336	Population-based Services
Other Ground Transportation	8,407	Population-based Services
402 Air Transportation	16,743	Population-based Services
403 Water Transportation	6,898	Population-based Services
407 Other Transportation	242	Population-based Services
Total, Transportation	64,626	
450 Community and Regional Development:		
451 Community Development	6,167	Not Applicable
452 Area and Regional Development	2,329	Not Applicable
453 Disaster Relief and Insurance	7,301	Not Applicable
Total, Community and Regional Development	15,797	Duplicates Below
450 Community and Regional Development: Duplicate Accounts		
Community and Regional Development Proportional	13,754	Population-based Services
Community and Regional Development: Public Good (Homeland Security)	2,043	Public Good
Total, Community and Regional Development: Duplicate Accounts	15,797	
500 Education, Training, Employment, and Social Services:		
501 Elementary, Secondary, and Vocational Education	34,357	Educational Benefits
502 Higher Education	25,264	Educational Benefits
503 Research and General Education Aids	3,005	Public Good
504 Training and Employment	7,912	Means-tested
505 Other Labor Services	1,552	Population-based Services
506 Social Services (Including Head Start)	15,855	Means-tested
Total, Education, Training, Employment, and Social Services	87,945	
550 Health:		
551 Health Care Services, Public Health, Mental Health, and Substance Abuse	19,888	Population-based Services
551 Health Care Services, Means-tested	190,204	Means-tested
552 Health Research and Training	27,099	Public Good
554 Consumer and Occupational Health and Safety	2,943	Population-based Services
Total, Health	240,134	
570 Medicare:		
571 Medicare	269,360	Direct Benefit
600 Income Security:		
601 General Retirement and Disability Insurance (Excluding Social Security) (Pension Benefit Guarantee, Black Lung and Disabled Miners, Railroad Retirement)	6,573	Direct Benefit
602 Federal Employee Retirement and Disability: Total	88,729	Interest and Other Financial Obligations
602 Federal Employee Retirement and Disability Due to Past Public Good Functions+subtotal	23,868	Public Good
602 Federal Employee Retirement and Disability, All Other: Sub-total	64,861	Interest and Other Financial Obligations
603 Unemployment Compensation (Counted as State Expenditure)		Not Applicable
604 Housing Assistance	36,568	Means-tested
605 Food and Nutrition Assistance	46,012	Means-tested
609 Other Income Security (Supplemental Security Income, Refundable Earned Income Credit, Temporary Assistance to Needy Families, Low Income Energy Assistance, Foster Care, Child Care and Child Development Block Grant)	109,961	Means-tested
Total, Income Security	332,837	

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Federal Outlays—Fiscal Year 2004 (continued)

Function and Subfunction	Millions of Dollars	Program Type
650 Social Security:		
651 Social Security	495,548	Direct Benefit
700 Veterans Benefits and Services:		
701 Income Security for Veterans	31,654	Public Good
702 Veterans Education, Training, and Rehabilitation	2,751	Public Good
703 Hospital and Medical Care for Veterans	26,783	Public Good
704 Veterans Housing	-1,980	Public Good
705 Other Veterans Benefits and Services	571	Public Good
Total, Veterans Benefits and Services	59,779	Public Good
750 Administration of Justice:		
751 Federal Law Enforcement Activities	19,090	Population-based Services
752 Federal Litigative and Judicial Activities	9,685	Population-based Services
753 Federal Correctional Activities	5,509	Population-based Services
754 Criminal Justice Assistance	11,251	Population-based Services
Total, Administration of Justice	45,535	Population-based Services
800 General Government:		
801 Legislative Functions	3,187	Population-based Services
802 Executive Direction and Management	510	Population-based Services
803 Central Fiscal Operations	9,339	Population-based Services
804 General Property and Records Management	228	Population-based Services
805 Central Personnel Management	217	Population-based Services
806 General Purpose Fiscal Assistance	7,675	Population-based Services
808 Other General Government	2,345	Population-based Services
809 Deductions for Offsetting Receipts	-1,679	Population-based Services
Total, General Government	21,822	Population-based Services
<i>General Government in Support of Public Good Functions</i>	<i>5,870</i>	Public Good
<i>General Government, All Other</i>	<i>15,952</i>	Population-based Services
900 Net Interest:		
901 Interest on Treasury Debt Securities (Gross)	321,679	Not Applicable
902 Interest Received by on-budget Trust Funds	-67,761	Not Applicable
903 Interest Received by off-budget Trust Funds	-86,228	Not Applicable
908 Other Interest	-4,473	Not Applicable
909 Other Investment Income	-2,972	Not Applicable
Total, Net Interest	160,245	
<i>Net Interest Due to Past Public Good Functions</i>	<i>43,106</i>	Public Good
<i>Net Interest, All Other</i>	<i>117,139</i>	Interest and Other Financial Obligations
TOTAL OUTLAYS WITH OFFSETTING RECEIPTS	2,305,758	
(Excludes Unemployment Insurance)		

Source: Budget Historical Tables for FY 2006 at www.whitehouse.gov/omb/budget/fy2006/pdf/hist.pdf. Budget codes 401 details taken from FY2006 Budget Appendix, pp. 792-824

Removing Federal Grants in Aid from State and Local Expenditures

	State and Local Expenditures (in millions)	Expenditure Subtotals (in millions)	Federal Grants in Aid to States (in millions)	State and Local Expenditures Less Federal Grants (in millions)
Total Income Security, Health, and Social Services	532,154.07			
Means-tested Aid and Services		440,859.00	277,849.00	163,010.00
Other		91,295.07	9,835.00	81,460.07
Total Transportation	141,958.53			
Highways		118,178.67	30,689.00	87,489.67
Air Transportation (Airports)		18,030.57	2,958.00	15,072.57
Parking Facilities		1,335.99		1,335.99
Sea and Inland Port Facilities		4,046.65		4,046.65
Transit Subsidies		366.66	20.00	346.66
Total Education and Training	664,561.08			
Higher Education		173,085.92	482.00	172,603.92
Elementary and Secondary		452,054.91	20,522.00	431,532.91
Other Education		30,219.74	14,810.00	15,409.74
Libraries		9,200.51	136.00	9,064.51
Training			4,325.00	-4,325.00
Total Resources and Environment	109,673.71			
Natural Resources		23,298.71	7,423.00	15,875.71
Parks and Recreation		30,467.48	239.00	30,228.48
Sewage		35,534.72		35,534.72
Solid Waste Management		20,372.80		20,372.80
Justice and Public Safety	187,551.12		5,084.00	182,467.12
Veterans	1,503.74		454.00	1,049.74
General Government	67,748.37		9,015.00	58,733.37
Protective Inspection and Regulation	11,498.04			11,498.04
Unallocated Expenditure	100,142.99		14,712.00	85,430.99
Employment Security Administration	4,679.16		2,650.00	2,029.16
Interest on General Debt	81,723.06			81,723.06
Insurance Trust Expenditure				
Unemployment Compensation	43,277.64			43,277.64
Employee Retirement	137,537.44			137,537.44
Workers' Compensation	12,299.80			12,299.80
Other Insurance Trust	4,289.89			4,289.89
Utility Expenditure				
Water Supply	44,806.24			44,806.24
Electric Power	59,298.84			59,298.84
Gas Supply	6,716.95			6,716.95
Transit	44,236.69		7,777.00	36,459.69
Liquor Store Expenditure	4,672.90			4,672.90
TOTAL STATE AND LOCAL OUTLAYS	2,260,330.26			
TOTAL FEDERAL GRANTS IN AID TO THE STATES			408,980.00	1,851,350.26

Removing User Fees and Charges from State and Local Expenditures

State and Local Expenditures Net Federal Grants in Aid	Expenditures Net Federal Grants (from Table 2A) <i>(in millions of dollars)</i>	User Fees and Charges: Type	User Fees and Charges: Amount <i>(in millions of dollars)</i>	State and Local Expenditures Net Federal Grants in Aid and Net Fees and Charges	Final Expenditures <i>(in millions of dollars)</i>
Total Income Security, Health, and Social Services				Total Income Security, Health, and Social Services	
Means-tested Aid and Services	163,010.00	Housing and Community Development	4,770	Means-tested Aid and Services	158,239.53
Other Income, Health and Services	81,460.07	Hospitals	72,652	Other Income, Health and Services	8,808.39
Total Transportation				Total Transportation	
Highways	87,489.67	Highways	8,991	Highways	78,498.76
Air Transportation (Airports)	15,072.57	Air Transportation (Airports)	13,345	Air Transportation (Airports)	1,727.56
Parking Facilities	1,335.99	Parking Facilities	1,540	Parking Facilities	-203.93
Sea and Inland Port Facilities	4,046.65	Sea and Inland Port Facilities	3,107	Sea and Inland Port Facilities	939.84
Transit Subsidies	346.66			Transit Subsidies	346.66
Total Education and Training				Total Education and Training	
Higher Education	172,603.92	Institutions of Higher Education	71,780	Higher Education	100,823.83
Elementary and Secondary	431,532.91	School Lunch Sales (Gross)	6,326	Elementary and Secondary	425,206.94
Other Education	15,409.74	Other Education Charges	6,314	Other Education	9,095.47
Libraries	9,064.51	Libraries		Libraries	9,064.51
Training	-4,325.00			Training	-4,325.00
Total Resources and Environment				Total Resources and Environment	
Natural Resources	15,875.71	Natural Resources	3,264	Natural resources	12,611.90
Parks and Recreation	30,228.48	Parks and Recreation	7,982	Parks and recreation	22,246.96
Sewerage	35,534.72	Sewerage	29,792	Sewerage	5,742.49
Solid Waste Management	20,372.80	Solid Waste Management	12,083	Solid waste management	8,289.80
Justice and Public Safety	182,467.12			Justice and Public Safety	182,467.12
Veterans	1,049.74			Veterans	1,049.74
General Government	58,733.37			General Government	58,733.37
Protective Inspection and Regulation	11,498.04			Protective Inspection and Regulation	11,498.04
Administration and Unallocated Expenditures	85,430.99	Other Charges	46,696	Total Unallocated Expenditure	38,734.62
Employment Security Administration	2,029.16			Employment Security Administration	2,029.16
Interest on General Debt	81,723.06			Interest on General Debt	81,723.06
Insurance Trust Expenditure				Insurance Trust Expenditure	
Unemployment Compensation	43,277.64			Unemployment Compensation	43,277.64
Employee Retirement	137,537.44			Employee Retirement	137,537.44
Workers' Compensation	12,299.80			Workers' Compensation	12,299.80
Other Insurance Trust	4,289.89			Other Insurance Trust	4,289.89
Utility Expenditure		Utility Revenue		Utility Expenditure	
Water Supply	44,806.24	Water Supply	36,087	Water Supply	8,719.05
Electric Power	59,298.84	Electric Power	55,980	Electric Power	3,318.36
Gas Supply	6,716.95	Gas Supply	6,506	Gas Supply	211.20
Transit	36,459.69	Transit	9,783	Transit	26,676.34
Liquor Store Expenditure	4,672.90	Liquor Store Revenue	5,698	Liquor Store Expenditure	-1,024.71
Total State and Local Outlays	1,851,350.26	Total Fees and Charges	402,696	Total State and Local Outlays	1,448,653.82

State and Local Outlays Minus Federal Grants in Aid and User Fees and Charges

State and Local Outlays Net Federal Grants in Aid and Net Fees and Charges	Net Expenditures <i>(in millions of dollars)</i>	Type of Program
Total Income Security, Health, and Social Services		
Means-tested Aid and Services	158,239.53	Means-tested
Other Income, Health and Services	8,808.39	Population-based
Total Transportation		
Highways	78,498.76	Population-based
Air Transportation (Airports)	1,727.56	Population-based
Parking Facilities	-203.93	Population-based
Sea and Inland Port Facilities	939.84	Population-based
Transit Subsidies	346.66	Population-based
Total Education and Training		
Higher Education	100,823.83	Educational Benefits
Elementary and Secondary	425,206.94	Educational Benefits
Other Education	9,095.47	Direct Benefit
Libraries	9,064.51	Population-based
Training	-4,325.00	Educational Benefits
Total Resources and Environment		
Natural Resources	12,611.90	Population-based
Parks and Recreation	22,246.96	Population-based
Sewerage	5,742.49	Population-based
Solid Waste Management	8,289.80	Population-based
Justice and Public Safety	182,467.12	Population-based
Veterans	1,049.74	Public Good
General Government	58,733.37	Population-based
Protective Inspection and Regulation	11,498.04	Population-based
Administraton and Unallocated Expenditure	38,734.62	Population-based
Employment Security Administration	2,029.16	Direct Benefit
Interest on General Debt	81,723.06	Interest and Other Costs due to Past Services
Insurance Trust Expenditure		
Unemployment Compensation	43,277.64	Direct Benefit
Employee Retirement	137,537.44	Interest and Other Costs due to Past Services
Workers' Compensation	12,299.80	Direct Benefit
Other Insurance Trust	4,289.89	Population-based
Utility Expenditure		
Water Supply	8,719.05	Population-based
Electric Power	3,318.36	Population-based
Gas Supply	211.20	Population-based
Transit	26,676.34	Population-based
Liquor Store Expenditure	-1,024.71	Population-based
TOTAL STATE AND LOCAL EXPENDITURES	1,448,653.82	
Summary		
Direct Benefit Total	57,606.60	
Means-tested Total	158,239.53	
Educational Benefits Total	530,801.24	
Population-based Services	481,696.22	
Interest and Other Financial Obligation Due to Past Activities	219,260.50	
Pure Public Good Expenditures	1,049.74	
TOTAL STATE AND LOCAL EXPENDITURES	1,448,653.82	

Government Taxes and Revenues

Federal Revenue Receipts FY 2004 <i>From Taxes and Related Sources</i>	Aggregate Revenue <i>(in millions of dollars)</i>	Revenue Sub-totals <i>(in millions of dollars)</i>	Average Federal Revenue per Household <i>114.79 million households (in dollars)</i>
Individual Income Taxes	808,959		\$7,047
Corporate Income Taxes	189,371		\$1,650
Federal Insurance Contributions Act (FICA)	685,334		\$5,970
Old Age and Survivors Insurance		457,120	
Disability Insurance		77,625	
Hospital Insurance		150,589	
Unemployment Insurance - Federal Receipts	6,718		\$59
Other Retirement Receipts	8,620		\$75
Railroad Retirement		2,297	
Railroad Social Security Equivalent Account		1,729	
Federal Employees Retirement Employee Share		4,543	
Non-federal Employees Retirement		51	
Excise Taxes	69,855		\$609
Alcohol Excise Tax		8,105	
Tobacco Excise Tax		7,926	
Telephone Excise Tax		5,997	
Transportation Fuels Excise Tax		1,381	
Other Taxes		1,157	
Trust Fund Excise Taxes	45,289		\$395
Highway		34,711	
Airport		9,174	
Other		1,404	
Estate and Gift Tax	24,831		\$216
Customs Duties and Fees	21,083		\$184
Other Miscellaneous Receipts	12,913		\$112
Miscellaneous: Fees for Permits and Regulatory and Judicial Services		8,675	
Miscellaneous: Fines, Penalties, and Forfeitures		3,902	
Other Miscellaneous Federal Receipts		336	
TOTAL FEDERAL RECEIPTS	1,827,684		\$15,922

Note: Excludes \$32.6 billion in unemployment insurance receipts from state governments and \$19.6 billion in earnings of the Federal Reserve System.

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Government Taxes and Revenues (continued)

State and Local Revenue <i>From Taxes and Related Sources</i>	Aggregate Revenue <i>(in millions of dollars)</i>	Revenue Sub-totals <i>(in millions of dollars)</i>	Average Revenue per Household <i>(in dollars)</i>
Taxes			
Property	318,242		\$2,772
General Sales	244,891		\$2,133
Selective Sales	115,738		\$1,008
Motor fuel		34,944	
Alcoholic beverage		4,986	
Tobacco products		12,626	
Public utilities		21,427	
Other selective sales		41,756	
Individual Income	215,215		\$1,875
Corporate Income	33,716		\$294
Motor Vehicle License	18,709		\$163
Other Taxes	63,766		\$556
Miscellaneous General Revenue	165,139		\$1,439
Interest Earnings		53,194	
Special Assessments		6,453	
Sale of Property		1,960	
Lottery Receipts		45,466	
Other General Revenue		58,066	
Insurance Trust Revenue	66,024		\$575
Unemployment Compensation		38,362	
Workers' Compensation		21,758	
Other Insurance Trust Revenue		5,904	
Employee Retirement Trust Revenue*	365,318		\$3,182
Employee Contributions		30,786	
Earnings on Investments		315,554	
Other		18,974	
TOTAL STATE AND LOCAL REVENUE	1,606,758		\$13,997

Note: Excludes \$396 billion in user fees and \$408 billion in federal grants to states and localities.

TOTAL FEDERAL, STATE, AND LOCAL REVENUE <i>From Taxes and Related Sources</i>	3,434,442	\$29,919
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Note: Excludes intra-government transfers to retirement trust funds.

Sources: Analytical Perspectives, Budget of the United States Government, Fiscal Year 2006; U.S. Census, Survey of Governments, at www.census.gov/govs/estimate/0400ussl_1.html.

Aggregate Government Expenditures

Low-skill immigrant group share of total program expenditures means the percentage of total expenditures received by households headed by persons who lack a high school diploma.
 Low-skill group share of beneficiaries means the percentage of all program beneficiaries who reside in households headed by persons who lack a high school diploma.

	Allocation Algorithms for Expenditures for Households Headed by Immigrants without a High School Diploma	Aggregate Federal Spending (in millions of dollars)	Aggregate State and Local Spending (in millions of dollars)	Combined Aggregate Spending (in millions of dollars)	Share of Expenditures Received by Households Headed by Immigrants without a High School Degree (in percent)	Aggregate Expenditures Received by Households Headed by Immigrants without a High School Degree (in millions of dollars)	Average Expenditures per Household for Households Headed by Immigrants without a High School Degree (4.55 million households (in dollars))
Direct Benefits							
Social Security Benefits	Low-skill immigrant group share of total program expenditures in the CPS	495,548.0		495,548.0	2.12%	10,505.62	\$2,309
Medicare Benefits	Low-skill immigrant group share of total program expenditures in the CPS	269,360.0		269,360.0	3.53%	9,508.41	\$2,090
Other Cash Transfers and Benefits							
Unemployment Compensation	Low-skill immigrant group share of total program expenditures in the CPS		45,306.8	45,306.8	3.77%	1,708.07	\$375
Worker's Compensation	Low-skill immigrant group share of total program expenditures in the CPS		12,299.8	12,299.8	4.15%	510.44	\$112
Other Federal Retirement (Railroad and Black Lung Disability)	Low-skill immigrant group share of total program expenditures in the CPS	6,573.0		6,573.0	0.25%	16.43	\$4
Agricultural Subsidies	Low-skill immigrant households are assumed to receive no benefits	11,186.0		11,186.0	0.00%	0.00	\$0
Mortgage Credit and Deposit Insurance	Low-skill immigrant households are assumed to receive no benefits	683.0		683.0	0.62%	4.23	\$1
Direct Benefits Total		783,350.0	57,606.6	840,956.6		22,253.20	\$4,891
Education Benefits							
Higher Education	See text	25,264.0	100,823.8	126,087.8	2.77%	3,492.63	\$768
Elementary and Secondary Training and Other Education	See text	34,357.0	425,206.9	459,563.9	7.56%	34,743.03	\$7,637
	Low-skill immigrant group share of the total population		4,770.5	4,770.5	5.480%	261.42	\$57
Education Benefits Total		59,621.0	530,801.3	590,422.3		38,497.1	\$8,462

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Aggregate Government Expenditures (continued)

	Allocation Algorithms for Expenditures for Households Headed by Immigrants without a High School Diploma	Aggregate Federal Spending (in millions of dollars)	Aggregate State and Local Spending (in millions of dollars)	Combined Aggregate Spending (in millions of dollars)	Share of Expenditures Received by Households Headed by Immigrants without a High School Degree (in percent)	Aggregate Expenditures Received by Households Headed by Immigrants without a High School Degree (in millions of dollars)	Average Expenditures per Household Headed by Immigrants without a High School Degree (4.55 million households) (in dollars)
Means-tested Benefits							
Public Aid	Low-skill immigrant group share of total program expenditures in the CPS	6,485.0	10,082.0	16,567.0	9.83%	1,628.54	\$358
SSI	Low-skill immigrant group share of total program expenditures in the CPS	34,693.0	5,146.0	39,839.0	6.65%	2,649.29	\$582
EITC	Low-skill immigrant group share of total program expenditures in the CPS with reduction for illegal immigrants	34,012.0		34,012.0	9.76%	3,318.82	\$729
Additional Child Credit (Refundable Portion)	Low-skill immigrant group share of total program expenditures in the CPS with reduction for illegal immigrants	9,113.0		9,113.0	8.47%	771.94	\$170
Food Stamps	Low-skill immigrant group share of total program expenditures in the CPS	28,431.0	2,562.0	30,993.0	8.50%	2,634.41	\$579
School Lunch and Breakfast	Low-skill immigrant group share of total program expenditures in the CPS	8,531.0		8,531.0	14.03%	1,196.90	\$263
WIC	Low-skill immigrant group share of beneficiaries in the CPS	4,899.0		4,899.0	15.09%	739.11	\$162
Housing	Low-skill immigrant group share of total program expenditures in the CPS	38,881.0	0.8	38,881.8	7.48%	2,908.36	\$639
Energy	Low-skill immigrant group share of total program expenditures in the CPS	2,118.0	141.0	2,259.0	3.35%	75.68	\$17
Daycare	Low-skill immigrant group share of beneficiaries in the CPS	13,158.0	4,946.0	18,104.0	5.86%	1,060.89	\$233
Indian Health	Low-skill immigrant group share of beneficiaries in the CPS	3,706.0		3,706.0	3.88%	143.83	\$32
Training	Low-skill immigrant group share of beneficiaries in the CPS	6,131.0	876.0	7,007.0	1.94%	135.94	\$30

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Aggregate Government Expenditures (continued)

	Allocation Algorithms for Expenditures for Households Headed by Immigrants without a High School Diploma	Aggregate Federal Spending (in millions of dollars)	Aggregate State and Local Spending (in millions of dollars)	Combined Aggregate Spending (in millions of dollars)	Share of Expenditures Received by Households Headed by Immigrants without a High School Degree (in percent)	Aggregate Expenditures Received by Households Headed by Immigrants without a High School Degree (in millions of dollars)	Average Expenditures per Household for Households Headed by Immigrants without a High School Degree (4.55 million households (in dollars))
Means-tested Benefits (continued)							
Medicaid/SCHIP							
Medicaid: Elderly in General Population	Low-skill immigrant group share of total program expenditures in the CPS	28,018.0			9.60%	2,689.73	\$591
Medicaid: Non-elderly Disabled Adults in the General Population	Low-skill immigrant group share of total program expenditures in the CPS	105,978.7			8.41%	8,912.81	\$1,959
Medicaid: Non-elderly Able-bodied Adults in the General Population	Low-skill immigrant group share of total program expenditures in the CPS	35,828.6			4.14%	1,483.30	\$326
Medicaid: Children in the General Population including Children on SCHIP	Low-skill immigrant group share of total program expenditures in the CPS	59,966.3			10.08%	6,044.60	\$1,329
Medicaid Elderly in Nursing Facilities	See text	45,015.0			13.58%	6,112.73	\$1,344
Medicaid Non-elderly Disabled Adults in Nursing Facilities	See text	14,654.6			8.41%	1,232.46	\$271
Medicaid Non-elderly Able-bodied Adults in Nursing Facilities	See text	90.1			4.14%	3.73	\$1
Medicaid Children in Nursing Facilities	See text	60.1			10.08%	6.05	\$1
Medicaid Elderly in ICF MR (Mentally Retarded)	See text	1,081.1			0.00%	0.00	\$0
Medicaid Non-elderly Disabled Adults in CF MR (Mentally Retarded)	See text	16,156.1			0.00%	0.00	\$0
Medicaid Non-elderly Able-bodied Adults in ICF MR (Mentally Retarded)	See text	30.0			0.00%	0.00	\$0
Medicaid Children in ICF MR (Mentally Retarded)	See text	60.1			10.08%	6.05	\$1
Medicaid/SCHIP Total		179,712.0	127,221.0	306,933.2			
Other Means-tested Aid (Foster Care, Social Services, Medical Care)	Allocated in proportion to the sum of total means-tested expenditures reported individually in the CPS	36,642.0	7,264.7	43,901.1	8.40%	3,688.01	\$811
Means-tested Benefits Total		406,512.0	158,239.5	564,751.5		47,443.18	\$10,428

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Aggregate Government Expenditures (continued)

	Allocation Algorithms for Expenditures for Households Headed by Immigrants without a High School Diploma	Aggregate Federal Spending (in millions of dollars)	Aggregate State and Local Spending (in millions of dollars)	Combined Aggregate Spending (in millions of dollars)	Share of Expenditures Received by Households Headed by Immigrants without a High School Degree (in percent)	Aggregate Expenditures Received by Households Headed by Immigrants without a High School Degree (in millions of dollars)	Average Expenditures per Household for Households Headed by Immigrants without a High School Degree (4.55 million households) (in dollars)
Population-based and Government Support Services							
Transportation							
Highways, Roads, and Parking Facilities	Low-skill immigrant group share of gasoline consumption in the CEX	32,336.0	78,294.9	110,630.9	2.52%	2,787.90	\$613
Air Transportation (Airports)	Low-skill immigrant households are assumed to receive two percent of all expenditures	16,743.0	1,727.6	18,470.6	0.50%	92.35	\$20
Sea and Inland Port Facilities	Low-skill immigrant group share of total consumption in the CEX	6,898.0	939.8	7,837.8	2.59%	203.00	\$45
Other Federal Ground Transportation	Low-skill immigrant households are assumed to receive zero percent of expenditures	8,407.0		8,407.0	0.00%	0.00	\$0
Transit Subsidies	Low-skill immigrant group share of public transportation consumption in the CEX		27,023.0	27,023.0	2.21%	597.21	\$131
Other	Unallocated	242.0		242.0			
<i>Transportation Sub-total</i>				172,611.3			
Justice, Police, and Public Safety	Low-skill immigrant group share of the total population	45,535.0	182,467.1	228,002.1	5.480%	12,494.52	\$2,746
Resources, Recreation, and Environment							
Natural Resources	Low-skill immigrant group share of the total population		12,611.9	12,611.9	5.480%	691.13	\$152
Parks and Recreation	Low-skill immigrant group share of the total population	2,963.0	22,247.0	25,210.0	5.480%	1,381.51	\$304
Sewerage	Low-skill immigrant group share of the total population		5,742.5	5,742.5	5.480%	314.69	\$69
Solid Waste Management	Low-skill immigrant group share of the total population		8,289.8	8,289.8	5.480%	454.28	\$100

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Aggregate Government Expenditures (continued)

	Allocation Algorithms for Expenditures for Households Headed by Immigrants without a High School Diploma	Aggregate Federal Spending (in millions of dollars)	Aggregate State and Local Spending (in millions of dollars)	Combined Aggregate Spending (in millions of dollars)	Share of Expenditures Received by Households Headed by Immigrants without a High School Degree (in percent)	Aggregate Expenditures Received by Households Headed by Immigrants without a High School Degree (in millions of dollars)	Average Expenditures per Household for Households Headed by Immigrants without a High School Degree (4.55 million households, 4.54% of population) (in dollars)
Population-based and Government Support Services (continued)							
Public Utility Spending: Expenditures Exceeding User Charges							
Water Supply	Low-skill immigrant group share of water consumption in the CEX	8,719.0	8,719.0	8,719.0	3.53%	307.78	\$68
Electric Power	Low-skill immigrant group share of electricity consumption in the CEX	3,318.4	3,318.4	3,318.4	2.93%	97.23	\$21
Gas Supply	Low-skill immigrant group share of natural gas consumption in the CEX	211.2	211.2	211.2	2.72%	5.74	\$1
Pollution Control and Abatement	Low-skill immigrant group share of total consumption in the CEX	8,485.0		8,485.0	2.59%	219.76	\$48
Energy	Low-skill immigrant group share of the total population	-166.0		-166.0	5.480%	-9.10	-\$2
Resources, Recreation, and Environment Sub-total				72,421.8			
Other Health Related							
General Health (Mental Health, Substance Abuse, Public Health)	Low-skill immigrant group share of the total population	19,888.0	8,808.4	28,696.4	5.480%	1,572.56	\$346
Consumer and Occupational Health	Low-skill immigrant group share of the total population	2,943.0		2,943.0	5.480%	161.28	\$35
Protective Inspection and Regulation	Low-skill immigrant group share of the total population		11,498.0	11,498.0	5.480%	630.09	\$138
Other Health Related Sub-total				43,137.4			
Miscellaneous							
Other Labor Services	Low-skill immigrant group share of the total population	1,552.0		1,552.0	5.480%	85.05	\$19
Other Advancement of Commerce	Low-skill immigrant group share of the total population	8,660.0		8,660.0	5.480%	474.57	\$104

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Aggregate Government Expenditures (continued)

	Allocation Algorithms for Expenditures for Households Headed by Immigrants without a High School Diploma	Aggregate Federal Spending (in millions of dollars)	Aggregate State and Local Spending (in millions of dollars)	Combined Aggregate Spending (in millions of dollars)	Share of Expenditures Received by Households Headed by Immigrants without a High School Degree (in percent)	Aggregate Expenditures Received by Households Headed by Immigrants without a High School Degree (in millions of dollars)	Average Expenditures per Household for Households Headed by Immigrants without a High School Degree 4.55 million households (in dollars)
Population-based and Government Support Services (continued)							
Postal Service	Low-skill immigrant group share of the total population	-4,070.0		-4,070.0	5.480%	-223.04	-\$49
Community Development	Low-skill immigrant group share of the total population	13,754.0		13,754.0	5.480%	753.72	\$166
Libraries	Low-skill immigrant group share of the total population		9,064.5	9,064.5	5.480%	496.74	\$109
<i>Miscellaneous Subtotal</i>							
General Government/Administrative Support				28,960.5			
General Government		21,822.0	58,733.4	80,555.4			
General Government Activities in Support of Public Good Functions		5,870.1					
General Government Less Activities in Support of Public Good Functions	Low-skill immigrant group share of total direct, means-tested and education benefits and other population-based benefits	15,951.9	58,733.4	74,685.3	4.66%	3,478.51	\$765
Unallocated Expenditures	Low-skill immigrant group share of total direct, means-tested and education benefits and other population-based benefits		37,709.9	37,709.9	4.66%	1,756.36	\$386
Other insurance trust	Low-skill immigrant group share of total direct, means-tested and education benefits and other population-based benefits		4,289.9	4,289.9	4.66%	199.80	\$44
<i>General Government Net Public Good Support Sub-total</i>							
		180,121.9	481,696.3	661,818.1		29,023.64	\$6,379

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Aggregate Government Expenditures (continued)

	Allocation Algorithms for Expenditures for Households Headed by Immigrants without a High School Diploma	Aggregate Federal Spending (in millions of dollars)	Aggregate State and Local Spending (in millions of dollars)	Combined Aggregate Spending (in millions of dollars)	Share of Expenditures Received by Households Headed by Immigrants without a High School Degree (in percent)	Aggregate Expenditures Received by Households Headed by Immigrants without a High School Degree (in millions of dollars)	Average Expenditures per Household for Households Headed by Immigrants without a High School Degree (4.55 million households)
Interest and Other Financial Obligations Associated With Past Service							
Interest Payments on Government Debt		160,245.0	81,723.1	241,968.1			N.A.
Retirement Benefits for Former Government Employees		88,729.0	137,537.4	226,266.4			N.A.
Financial Obligations Associated with Past Services and Benefits Total		248,974.0	219,260.5	468,234.5			N.A.
Less Financial Obligations for Past Public Goods		66,974.0					N.A.
		182,000.0	219,260.5	401,260.5			
Total Net Financial Obligations: Interest and Other Financial Obligations Associated with Past Service Minus Obligations Associated with Past Public Goods							
	Low-skill immigrant group share of total direct, means-tested and other population-based benefits						
Pure Public Goods Expenditures							
National Defense and Related Costs	Low-skill immigrant group share of the total population	457,951.0		457,951.0			N.A.
Veterans	Low-skill immigrant group share of the total population	59,779.0	1,049.7	60,828.7			N.A.
Science and Scientific Research	Low-skill immigrant group share of the total population	57,411.0		57,411.0			N.A.
International Affairs	Low-skill immigrant group share of the total population	26,891.0		26,891.0			N.A.
Natural Resources and Environment	Low-skill immigrant group share of the total population	19,277.0		19,277.0			N.A.
General Government Services in Support of Public Good Functions	Low-skill immigrant group share of the total population	5,870.1		5,870.1			N.A.
Interest and Other Financial Obligations for Past Public Good Functions	Low-skill immigrant group share of the total population	66,974.0		66,974.0			N.A.
Pure Public Goods Expenditures Total		694,153.1	1,049.7	695,202.8			N.A.
TOTAL EXPENDITURES		2,305,758.0	1,448,653.9	3,754,411.9		N.A.	N.A.
TOTAL EXPENDITURES LESS PURE PUBLIC GOOD EXPENDITURES, INTEREST, AND PAST FINANCIAL OBLIGATIONS		1,611,604.9	1,447,604.2	3,059,209.0		137,217.1	\$30,160

Source: See Appendix A.

Tax and Revenue Algorithms and Calculations

LGSC (low-skill group share of consumption) means the share of consumption of a given item performed by households headed by persons without a high school diploma. LGSTC (low-skill group share of total consumption) means the share of total consumption of all items performed by households headed by persons without a high school diploma.

	Algorithms for Households Headed by Immigrants without a High School Diploma	Aggregate Tax Receipts (in millions)	Consumption Share of Households Headed by Immigrants without a High School Diploma in CEX (in percent)	Relevant Income Share Received by Households Headed by Immigrants without a High School Diploma in CPS (in percent)	Illegal Immigrant Adjustment Factor	Aggregate Tax Paid by Households Headed by Immigrants without a High School Diploma (in millions)	Taxes Paid per Household by Households Headed by Immigrants without a High School Diploma 4.55 million households (in dollars)
Federal Taxes and Revenues							
Federal Individual Income Tax	CPS tax payment figures with adjustment for under-reporting	808,959.0		0.81%	81.30%	5,327.2	\$1,171
FICA Taxes	CPS tax payments with adjustments	685,334.0		2.35%	81.30%	13,093.6	\$2,878
Federal Corporate Income Tax	Incidence assumed to be 70 percent on workers and 30 percent on owners	189,371.0		2.28%		3,022.4	\$664
Federal Corporate Income Tax on Workers	70 percent of total tax times share of earned income in CPS			0.62%		352.2	\$77
Federal Corporate Income Tax on Owners	30 percent of total tax times share of dividend, interest and rental income in CPS			4.22%		230.2	\$51
Unemployment Insurance - Federal Receipts	Assume incidence falls 100 percent on workers; share of tax paid by households headed by person without a high school degree equals their share of earned income in the CPS	6,718.0			81.30%		
Highway Trust Fund	Incidence assumed to fall half on private owners of motor vehicles; one quarter on owners of business; and one quarter on general consumers	34,711.0					
Highway Trust Fund Taxes on Private Vehicle Drivers	One half of total tax times LGSC on gasoline in CEX		3.43%			595.3	\$131
Highway Trust Fund Taxes on Business Owners	One quarter of total tax times share of dividend, interest and rental income in CPS			0.62%		53.8	\$12
Highway Trust Fund Taxes on Consumers	One quarter of total tax times LGSTC in CEX		2.59%			224.8	\$49
Airport and Airway Taxes	Taxes paid by households headed by persons without a high school degree assumed to be two percent of total	9,174.0	0.50%			45.9	\$10

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Tax and Revenue Algorithms and Calculations (continued)

	Algorithms for Households Headed by Immigrants without a High School Diploma	Aggregate Tax Receipts (in millions)	Consumption Share of Households Headed by Immigrants without a High School Diploma in CEX (in percent)	Relevant Income Share Received by Households Headed by Immigrants without a High School Diploma in CPS (in percent)	Illegal Immigrant Adjustment Factor	Aggregate Tax Paid by Households Headed by Immigrants without a High School Diploma (in millions)	Taxes Paid per Household by Households Headed by Immigrants without a High School Diploma 4.55 million households (in dollars)
Federal Taxes and Revenues (continued)							
Federal Excise Taxes: Alcohol	Total tax times LGSC of alcohol in CEX	8,105.0	2.46%			199.4	\$44
Federal Excise Taxes: Tobacco	Total tax times LGSC of tobacco in CEX	7,926.0	1.96%			155.3	\$34
Federal Excise Taxes: Telephone	Total tax times LGSC of telephone in CEX	5,997.0	3.55%			212.9	\$47
Federal Excise Taxes: Transportation Fuels	Total tax times LGSC of fuels in CEX	1,381.0	1.59%			22.0	\$5
Federal Excise Taxes: All Other	Total tax times LGSTC in CEX	2,561.0	2.59%			66.3	\$15
Federal Retirement Receipts							
Railroad and Other Retirement Receipts	Total receipts times share of railroad earnings in CPS	4,077.0		0.00%		0.0	0.0
Federal Employees Retirement Employee Share	Total receipts times share of federal employee earnings in CPS	4,543.0		0.15%		7.0	\$2
Federal Gift and Estate Tax	Share paid by households headed by persons without a high school degree assumed to be minimal	24,831.0		0.00%		0.0	\$0
Customs Duties and Fees	Total tax times LGSTC in CEX	21,083.0	2.59%			546.0	\$120
Miscellaneous: Fees for Permits and Regulatory and Judicial Services	Not Applicable	8,675.0					NA
Miscellaneous: Fines, Penalties, and Forfeitures	Not Applicable	3,902.0					NA
Other Miscellaneous Federal Receipts	Not Applicable	336.0					NA
Federal Total Taxes and Revenues		1,827,684.0				24,154.3	5,309.1

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Tax and Revenue Algorithms and Calculations (continued)

State and Local Taxes and Revenues	Algorithms for Households Headed by Immigrants without a High School Diploma	Aggregate Tax Receipts (in millions)	Consumption Share of Households Headed by Immigrants without a High School Diploma in CEX (in percent)	Relevant Income Share Received by Households Headed by Immigrants without a High School Diploma in CPS (in percent)	Illegal Immigrant Adjustment Factor	Aggregate Tax Paid by Households Headed by Immigrants without a High School Diploma (in millions)	Taxes Paid per Household by Households Headed by Immigrants without a High School Diploma 4.55 million households (in dollars)
State and Local Individual Income Taxes	CPS tax payment figures with under-reporting adjustment	215,214.7	1.12%	1.12%	81.30%	1,959.7	\$431
State and Local Corporate Income Tax	Incidence assumed to fall 70 percent on workers and 30 percent on owners	33,715.8					
State and Local Corporate Income Tax on Workers	70 percent of total tax times the share of total earnings received by households headed by persons without a high school degree as reported in the CPS			2.28%		538.1	\$118
State and Local Corporate Income Tax on Owners	30 percent of total tax times the share of total interest, dividends and rent received by households headed by persons without a high school degree as reported in the CPS			0.62%		62.7	\$14
Property Taxes	Incidence is assumed to fall half on homes and rented apartments; half on businesses. The business portion is further assumed to fall half on consumers and half on owners.	318,242.5					
Property Taxes on Owner-occupied and Rented Domiciles	One-half of total tax time LGCS of shelter costs					4,805.5	\$1,056
Property Taxes on Owners	One-quarter of total tax times the share of total interest, dividends and rent received by households headed by persons without a high school degree as reported in the CPS			0.62%		493.3	\$108
Property Taxes on Consumers	One-quarter of total tax times LGSTC					2,060.6	\$453
General Sales Taxes	Total Tax Times LGSTC Minus Exemptions	244,891.3				5,314.1	\$1,168
Motor Fuel Tax	Incidence assumed to fall half on private owners of motor vehicles; one quarter on owners of business; and one quarter on general consumers	34,943.6					

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Tax and Revenue Algorithms and Calculations (continued)

	Algorithms for Households Headed by Immigrants without a High School Diploma	Aggregate Tax Receipts (in millions)	Consumption Share of Households Headed by Immigrants without a High School Diploma in CEX (in percent)	Relevant Income Share Received by Households Headed by Immigrants without a High School Diploma in CPS (in percent)	Illegal Immigrant Adjustment Factor	Aggregate Tax Paid by Households Headed by Immigrants without a High School Diploma (in millions)	Taxes Paid per Household by Households Headed by Immigrants without a High School Diploma 4.55 million households (in dollars)
State and Local Taxes and Revenues (continued)							
Motor Fuel Tax on Drivers of Personal Vehicles	One-half total tax times LGSC of gasoline		3.43%			599.3	\$132
Motor Fuel Tax on Consumers	One-quarter of total tax times LGSTC		2.59%	0.62%		226.3	\$50
Motor Fuel Tax on Business Owners	One-quarter of total tax on gasoline times share of interest, dividends and rents in the CPS going to households headed by persons without a high school degree					54.2	\$12
Tobacco Tax	Total tax times LGSC of tobacco	12,625.8	1.96%			247.5	\$54
Alcohol Tax	Total tax times LGSC of alcohol	4,985.7	2.46%			122.6	\$27
Other Selective Sales Tax	Total tax times LGSTC	41,755.9	2.59%			1,081.5	\$238
Motor Vehicle Licenses	Total tax times LGSC for licenses	18,709.0	1.76%			329.3	\$72
Public Utilities Tax	Total tax times LGSC for utilities	21,426.6	3.12%			668.5	\$147
Other General Taxes State and Local (Mainly Estate, Stock Transaction, and Severance Taxes)	Assume taxes paid by households headed by persons without a high school degree will be minimal	63,766.5		0.00%		0.0	\$0
Insurance Trust Revenue							
Unemployment Compensation	Assume incidence falls 100 percent on workers; share of tax paid by households headed by person without a high school degree equals their share of earned income in the CPS	38,361.5		4.22%	81.30%	1,314.6	\$289
Workers' Compensation	Assume incidence falls 100 percent on workers; share of tax paid by households headed by person without a high school degree equals their share of earned income in the CPS	21,757.9		4.22%	81.30%	745.6	\$164
Other Insurance Trust Revenue	Unknown	5,904.4					

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Tax and Revenue Algorithms and Calculations (continued)

State and Local Taxes and Revenues <i>(continued)</i>	Algorithms for Households Headed by Immigrants without a High School Diploma	Aggregate Tax Receipts <i>(in millions)</i>	Consumption Share of Households Headed by Immigrants without a High School Diploma in CEX <i>(in percent)</i>	Relevant Income Share Received by Households Headed by Immigrants without a High School Diploma in CPS <i>(in percent)</i>	Illegal Immigrant Adjustment Factor	Aggregate Tax Paid by Households Headed by Immigrants without a High School Diploma <i>(in millions)</i>	Taxes Paid per Household by Households Headed by Immigrants without a High School Diploma <i>4.55 million households (in dollars)</i>
Employee Retirement Trust Revenue							
Employee Contributions	Total contribution times the share of earnings of state and local employees going to households headed by person without a high school degree	30,785.8		0.24%		73.9	\$16
Earnings on Investments	Not applicable	315,553.9					N.A.
Other	Not applicable	18,978.8					N.A.
State and Local Other General Revenue							
Interest Earnings	Not applicable	53,194.3					N.A.
Sale of Property	Not applicable	1,959.6					N.A.
Special Assessments	Not applicable	6,452.7					N.A.
Other General Revenue	Unknown	58,066.0					N.A.
Lottery Receipts	Per capita expenditures assuming double normal use by households headed by persons without a high school degree	45,465.8		7.15%		3,249.4	\$714
Total State and Local Taxes and Revenues		1,606,757.9					\$5,263
TOTAL FEDERAL, STATE, AND LOCAL TAXES AND REVENUES		3,434,441.9					\$10,573

Low-Skill Immigrant Households: Benefits and Taxes by Age of Householder

	All	Aged Under 25	Ages 25 to 34	Ages 35 to 44	Ages 45 to 54	Ages 55 to 64	Age 65 and Older
Number of Households (<i>in thousands</i>)	4550	317	1108	1046	713	493	873
Benefits per Household							
Direct Benefits	\$4,891	\$302	\$672	\$1,368	\$2,498	\$6,346	\$17,234
Educational Benefits	\$8,462	\$3,479	\$9,320	\$14,424	\$10,885	\$5,516	\$974
Means-tested Benefits	\$10,428	\$4,840	\$8,721	\$10,866	\$10,150	\$9,592	\$14,849
Population-based Services	\$6,379	\$5,673	\$6,771	\$7,713	\$7,252	\$5,489	\$4,479
Total Immediate Benefits and Services	\$30,160	\$14,295	\$25,485	\$34,371	\$30,785	\$26,942	\$37,537
Taxes and Revenues Paid per Household							
Federal Taxes and Revenues	\$5,309	\$4,455	\$5,138	\$6,395	\$7,875	\$5,678	\$1,802
State and Local Taxes and Revenues	\$5,263	\$3,910	\$5,693	\$6,465	\$6,650	\$5,024	\$3,049
Total Taxes and Revenues	\$10,573	\$8,365	\$10,830	\$12,861	\$14,525	\$10,702	\$4,851
Net Deficit Per Household (Benefits Received Minus Taxes Paid)	\$19,588	\$5,930	\$14,654	\$21,510	\$16,259	\$16,240	\$32,686

Individuals In Nursing Facilities and Intermediate Care Facilities for the Mentally Retarded (ICF-MR)

	Total Institutional Population		Immigrants Without a High School Degree	
	<i>Percent of Institutional Population by Age</i>	<i>Persons</i>	<i>Percent of Total Institutional Population</i>	<i>Persons</i>
Nursing Facilities				
Age Under 18	0.18%	2,746	7.00%	192
Age 18 to 64	11.54%	172,256	4.90%	8,441
Age 65 and Older	88.27%	1,317,205	8.35%	110,013
<i>Nursing Facilities: Total</i>	<i>100.00%</i>	<i>1,492,207</i>	<i>7.95%</i>	<i>118,646</i>
Intermediate Care Facilities - Mentally Retarded (ICF-MR)*				
Age Under 18	9.02%	13,999	7.00%	980
Age 18 to 64	56.32%	87,377	0.00%	0
Age 65 and Older	34.65%	53,579	0.00%	0
<i>ICF-MR: Total</i>	<i>100.00%</i>	<i>155,135</i>		<i>980</i>

* The ICF-MR category also contains a few other sub-categories of long-term institutional care.

Source: 2004 National Nursing Home Survey, CDC; 2000 Census, Other Institutionalized Individuals.