

The Golden Years? Deficit Reduction and Immigration

By James R. Edwards, Jr.

Washington is consumed with budget politics, connected with the increase in the federal debt ceiling enacted in August 2011. The Budget Control Act, which raised the national debt limit by \$2.1 trillion to \$16.4 trillion, requires corresponding paring of the federal deficit.

Immigration relates to federal expenditures and budgetary matters in ways that many lawmakers do not recognize. This *Memorandum* examines briefly how immigration relates to federal spending.

This *Memorandum* finds:

- Most of Washington's budget debate has centered on discretionary spending rather than the 60 percent of federal spending that is mandatory and includes Medicare, Medicaid, and Social Security.
- The share of the population that qualifies for entitlement programs such as Medicare now is, and into the next half-century and longer will be even more, comprised by a burgeoning proportion of immigrants.
- A steadily growing share of mandatory spending will go to an immigrant elderly population, whose lifetime earnings will have lagged their native-born counterparts. Yet the progressive nature of those programs may result in an overall better deal for immigrants than native-born taxpayers, potentially placing a greater drain on the U.S. treasury.

First, this *Memorandum* briefly describes the federal budget picture. Next, it considers entitlement programs, then how immigration affects federal entitlements. Finally, it draws conclusions and suggests immigration changes that would help lower federal fiscal obligations over the middle- and long-term.

Federal Spending and Budget Politics

The 112th Congress has spent much effort in budget wrangling. The new Republican majority in the U.S. House has insisted on reducing federal spending at every turn. This condition was placed on a 2012 budget outline, the unfinished FY 2011 spending package, fiscal 2012 appropriations, and an increase of the national debt ceiling. Demanding spending cuts comes on the heels of the free-spending 111th Congress, which dumped trillions of dollars in an economic stimulus package, federal bailouts of the automobile and financial sectors, a breathtaking expansion of the government's role in health care, and a scheme known as "cash for clunkers." The yearly federal deficit exploded from \$455 billion in 2008 to \$1.3 trillion in 2011 (the third year in a row with deficit spending above \$1 trillion).¹ The national debt nearly doubled from \$4.6 trillion in 2005 to more than \$9 trillion in 2010.²

Congress and the Obama administration agreed upon the Budget Control Act's terms as a vehicle to raise the federal debt ceiling.³ Under this law, the debt limit increases by \$2.1 trillion. It could rise another \$300 billion. Meanwhile, estimated savings from spending cuts and new capitations amount to \$917 billion over 10 years. A temporary House-Senate committee is to propose another \$1.5 trillion in deficit reduction (over a decade) by

James R. Edwards, Jr., Ph.D., is a Fellow with the Center for Immigration Studies and coauthor of The Congressional Politics of Immigration Reform.



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November 23. Either Congress enacts that package by December 23 or else across-the-board cuts of \$1.2 trillion take effect. Congress will also consider a Balanced Budget Amendment to the Constitution by the end of the year.

The budget politics of the past year have focused almost entirely on discretionary spending. The special joint committee created by the Budget Control Act will propose an additional \$1.5 trillion (over a decade) in reduced spending. While certain Medicare reductions could be part of the proposal, the vast majority of cuts will occur in defense and nondefense discretionary areas.

The Real Money: Entitlement Programs

For all of Congress's and the White House's blood, sweat, and tears spilt over reining in discretionary spending, it comprises only about a third of federal expenditures. Discretionary spending includes entire departments like Transportation, Homeland Security, Energy, and Education and funds things like national parks, the FBI, federal highways, and the military.

The real money lies in mandatory spending. Mandatory spending covers the major entitlement programs: Medicare, Medicaid, and Social Security. This spending accounts for roughly three-fifths of all federal outlays. As well, the Obama health care regime introduces a new entitlement program. It also expands Medicaid and other welfare programs.

A larger proportion of the U.S. population will soon attain retirement age, becoming beneficiaries of the major entitlement programs Medicare and Social Security. The fiscal impact of this shift will be sizeable. The Congressional Budget Office says, "Altogether, the aging of the population and the rising cost of health care would cause spending on the major mandatory health care programs and Social Security to grow from roughly 10 percent of GDP today to about 15 percent of GDP 25 years from now."⁴

These programs provide an uncapped, defined benefit. Social Security and Medicare require certain conditions to qualify for benefits, such as working 40 quarters and paying the payroll deduction over that period. By contrast, Medicaid and the Children's Health Insurance Program (effectively an entitlement program) are welfare programs. Any credible approach to gaining control of America's fiscal house must include addressing all entitlement programs.

Immigration and Entitlements

Mass immigration will inevitably affect entitlement spending as immigration continues at historically high rates and as more and more entitlement-eligible immigrants age. Immigration of foreigners already elderly upon their arrival poses less of a burden on entitlement spending because of restrictions on their collecting benefits. While Medicaid and Supplemental Security Income restrict access for elderly immigrant arrivals, immigrants who come much younger and satisfy requirements to qualify for benefits will continue to represent a larger and larger share of entitlement beneficiary populations.

This presents a challenge to the financial integrity of the Medicare and Social Security programs. Given that immigrants now possess lower skills than natives and their earnings average substantially less than natives', those immigrants who qualify for entitlement programs could collect more in benefits than they paid into those programs through taxes. With the Baby Boom cadre entering retirement over the next 20 years, federal health programs will already be weakened financially. Significant immigration now by disproportionately lower earners will impose fiscal challenges to entitlement programs 20 years and more hence.

The 65-and-older immigrant population has risen markedly since 1990. It has grown from 2.7 million to 4.3 million.⁵ The over-65 population comprised by immigrants stood at 8.6 percent in 1990; by 2007, the immigrant share was 11.5 percent.⁶ That population segment is projected to expand from four million to 16 million by mid-

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century. Fully 82 percent of the estimated U.S. population increase, from 296 million in 2005 to 438 million in 2050, is attributed to immigration; that is, 117 million of the 134 million new U.S. residents by mid-century will be immigrants and their children.⁷

What this means for federal entitlement obligations may be illustrated with nursing home usage. Medicaid spends most of its long-term care dollars on nursing home care. Home- and community-based services, which are less costly, have increased in Medicaid, but nursing home stays remain dominant. The number of people in nursing homes fell overall by 6 percent from 1999 to 2008. This occurred because of a drop in white nursing home patients. Yet Hispanic patients in these facilities rose almost 55 percent while Asians in nursing homes increased 54 percent during the same period.⁸ Minority nursing home residents tend to rely on Medicaid to finance their stay. This despite limitations on elderly foreign-born participation in Medicare, Medicaid, and other entitlement programs.

“Social Security benefits are progressive and replace a larger portion of previous wages for people with low earnings than for those with high earnings,” the liberal Center on Budget and Policy Priorities has said.⁹ A steadily increasing share of the immigrant population that earns less and pays less in Social Security and Medicare taxes may increasingly strain entitlement programs.¹⁰ That is because the immigrants may not only take out more than they pay into the system, but their share of the population can be expected to add to the costs of and demand for benefits.¹¹ Medicare averaged \$8,344 per beneficiary in 2006, and Medicare spending rose at a 9 percent clip between 1985 and 2009.¹² With an expanding share of Medicare-qualified immigrants, the program will face even starker fiscal prospects. Likewise, immigrants often pursue employment strategies so as to satisfy Social Security eligibility rules, thus ensuring payout from the U.S. Treasury to foreign-born retirees.¹³

Conclusion

Federal deficit reduction must look at entitlement spending, which has been and will continue rising faster than GDP. Along with this focus, the increase in the share of the U.S. population accounted for by immigration must be weighed as a matter of fiscal drain on the nation. A poorer, less-skilled pool of immigrants who eventually become eligible for U.S. entitlement programs could tilt the budget tables significantly against the national interest. While the case should not be overstated, rising immigration levels by a growing share of unskilled individuals factors into America’s dire fiscal predicament.

Therefore, the immigration of individuals outside an immigrant’s nuclear family unit (“chain migration”), the visa lottery, and prioritization of extended family reunification over employment-based immigration should be reconsidered. The human capital of prospective immigrants should be taken into account in immigrant selection. This could take the form of a point system, allotting each individual points based on one’s education level, English proficiency, job skills and experience level, physical fitness and health status, and the like. Finally, immigrants who arrive after age 40 should face much steeper hurdles to secure a visa and stricter limits on qualifying for U.S. entitlement programs.

End Notes

- ¹ Vicki Needham, “Federal budget deficit on track to eclipse \$1 trillion for third year”, *The Hill*, June 10, 2011, <http://thehill.com/blogs/on-the-money/budget/165851-federal-budget-deficit-on-track-to-eclipse-1-trillion-for-the-third-straight-year>.
- ² Congressional Budget Office, “Budget and Economic Outlook: Historical Budget Data,” Table E-1, [http://www.cbo.gov/ftpdocs/120xx/doc12039/HistoricalTables\[1\].pdf](http://www.cbo.gov/ftpdocs/120xx/doc12039/HistoricalTables[1].pdf).
- ³ See <http://www.gpo.gov/fdsys/pkg/BILLS-112s365eah/pdf/BILLS-112s365eah.pdf>.
- ⁴ Congressional Budget Office, “CBO’s 2011 Long-Term Budget Outlook”, June 2011, p. ix, http://www.cbo.gov/ftpdocs/122xx/doc12212/06-21-Long-Term_Budget_Outlook.pdf.
- ⁵ Maudia Gentry, “Challenges of Elderly Immigrants”, *Human Services Today*, Spring 2010, Vol. 6, Issue 2, citing M. Leach, “America’s Older Immigrants: A Profile, Generations”, *Journal of the American Geriatrics Society* (2009).
- ⁶ George J. Borjas, “Economic Well-Being of the Elderly Immigrant Population”, August 10-11, 2009, <http://www.nber.org/2009rrc/Summaries/7.1%20Borjas.pdf>.
- ⁷ Pew Research Center, “U.S. Population Projections: 2005-2050”, February 11, 2008, <http://www.pewsocialtrends.org/2008/02/11/us-population-projections-2005-2050/>.
- ⁸ Zhanlian Feng, Mary L. Fennell, Denise A. Taylor, Melissa Clark, and Vincent Mor, “Growth of Racial and Ethnic Minorities in U.S. Nursing Homes Driven by Demographics and Possible Disparities in Options”, *Health Affairs*, July 2011, pp. 1358-1365.
- ⁹ Paul N. Van de Water, “Immigration and Social Security”, November 20, 2008, Center on Budget and Policy Priorities, <http://www.cbpp.org/cms/index.cfm?fa=view&id=1272>.
- ¹⁰ See Steven A. Camarota, “Immigration, Social Security, and the Labor Market”, testimony before the House Judiciary Immigration Subcommittee, June 19, 2007, <http://www.cis.org/node/585>.
- ¹¹ This portrait is not as clearly the case with regard to Social Security. An important study found immigrants receive a better deal based on the Social Security formula, but over time this ceases to be the case. Immigrants who leave the United States without collecting Social Security benefits also cloud the picture. See Alan L. Gustman and Thomas L. Steinmeier, “Social Security Benefits of Immigrants and U.S. Born”, in George J. Borjas, ed., *Issues in the Economics of Immigration*, January 2000, University of Chicago Press, <http://www.nber.org/chapters/c6059.pdf>.
- ¹² Lisa Porter, Juliette Cubanski, and Tricia Newman, “Medicare Spending and Financing: A Primer”, February 2011, Kaiser Family Foundation, pp 1-3, <http://www.kff.org/medicare/7731.cfm>.
- ¹³ George J. Borjas, “Social Security Eligibility and the Labor Supply of Elderly Immigrants”, August 9-10, 2007, <http://www.mrrc.isr.umich.edu/news/events/docs/2007rrc/papers/h2p.pdf>.