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Welfare Participation of Immigrant Households Is Rising Rapidly

Immigrant participation in welfare programs is on the rise, and the dollar costs associated with that trend are rising even faster than participation, according to a new NBER study by **George Borjas**. By 1990, even though only 8 percent of the households in the United States were foreign-born, they accounted for 10 percent of households receiving public assistance, and for 13 percent of the total cash assistance distributed. Also, by 1990, the welfare participation rate of immigrant households was 9 percent, or nearly 2 percentage points higher than the participation rate of native households.

In **Immigration and Welfare, 1970–1990** (*NBER Working Paper No. 4872*), Borjas notes that in 1970, only 5.5 percent of the most recent immigrant households (that is, households that have been in the United States less than five years) received welfare; in both 1980 and 1990, over 8 percent of the newly arrived immigrant households received public assistance. Although the welfare participation rate of the most recently arrived immigrant households remained constant between 1980 and 1990, the immigrant recipiency rate rose relative to that of native households.

Among immigrant households that have been in the United States between five and ten years, there also has been a rise (both absolutely and relatively) in welfare participation rates over the last two decades: from 6.5 percent in 1970, to over 8 percent in 1980, and to nearly 11 percent in 1990.

Further, Borjas points out that even though only 5.5 percent of the households that migrated to the United States between 1965 and 1969 received public assistance in 1970, the welfare participation rate of this group had increased to about 10 percent in both 1980 and 1990. Similarly, households who arrived between 1975 and 1979 had a welfare participation rate of over 8 percent in 1980 and 10 percent in 1990.

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These trends occur among both male-headed and female-headed households. However, there

are substantial differences in welfare propensities among national origin groups. For example, only about 2 to 4 percent of the households originating in South Africa, Taiwan, or the United Kingdom receive public assistance, as opposed to about 11 to 12 percent of the households originating in Ecuador or Mexico, and nearly 50 percent for households originating in Laos or Cambodia. This variation in welfare propensities cannot be explained by differences in the number of years that the various groups have resided in the United States, Borjas finds. Even among households who are longtime residents, welfare participation rates differ significantly across groups: 4 percent of German immigrants, 11 percent of Filipino immigrants, and 30 percent of immigrants from the Dominican Republic receive welfare even after ten years in the United States.

In general, though, refugee households tend to exhibit much higher rates of welfare participation than nonrefugee households. In 1990, households originating in Cambodia or Laos had a welfare participation rate of nearly 50 percent; those originating in Vietnam had a welfare participation rate of almost 26 percent; and those originating in Cuba or the Soviet Union had a participation rate of 16 percent.

Moreover, Borjas learns, the participation rate of refugee households remains high even after a decade in the United States. Even refugee groups that are thought of as being economically successful, such as the pre-1980 Cubans (who migrated prior to the Mariel flow), had a welfare participation rate of over 15 percent in 1990.

As a consequence, in 1970, 5.6 percent of nonrefugee households received public assistance as opposed to 7 percent of refugee households. By 1990, nonrefugee households had a welfare participation rate of almost 8 percent, as opposed to 16 percent for refugee households. The typical native household on welfare received roughly $4000 in cash benefits (in 1989 dollars) in 1970, 1980, and 1990, while the typical immigrant household on welfare received about $3800 in 1970, nearly $4700 in 1980, and about $5400 in 1990,

Borjas also takes a special look at the trends in welfare participation and benefit levels of native and immigrant households in California between 1970 and 1990. This is a good case study, because a relatively large fraction of California's households, whether native- or foreign-born, receive public assistance.

The trends in California mirror those for the country as a whole. The most recent immigrant wave residing in California in 1970 had a welfare participation rate of almost 8 percent, as compared to over 12 percent for the most recent wave in 1990. The welfare participation rate of immigrant households that arrived in California between 1965 and 1969 also rose from almost 8 percent to 11 percent between 1970 and 1990.

Borjas finds that the propensity to go on welfare is rising rapidly among California's immigrants, as are the dollar costs associated with this trend. California's sizable refugee population (almost 20 percent of all refugee immigrants reside in California) has strikingly high welfare participation rates: about 50 percent of refugees who arrived during the 1980s are on welfare as of 1990. The average payment to both native and immigrant welfare households in 1970 was about $4400. By 1990, the typical immigrant household on welfare received approximately $1500 more than the typical native household on welfare.

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Borjas uses the 1970, 1980, and 1990 Public Use Samples of the U.S. Census to trace the evolution of immigrant participation in welfare programs during the past two decades. His unit of observation is the household. A household is classified as an immigrant household if its head was born outside the United States and is either an alien or a naturalized citizen. All other households are classified as native households. Further, a household is counted as receiving public assistance if any member received public assistance income in the calendar year prior to the Census. The assistance included Aid to Families with Dependent Children, Supplemental Security Income, and general assistance; decennial Censuses do not contain any information on the household's participation in noncash assistance programs, such as Food Stamps and Medicaid.

Babyboomers Will Drain Private Pensions

Because of the aging of the U.S. population, the private pension system "will cease being a source of national saving in the third decade of the next century," according to a recent NBER study by **Sylvester Scheiber** and **John Shoven**. In **The Consequences of Population Aging on Private Pension Fund Saving and Asset Markets** (*NBER Working Paper No. 4665*), they predict that the saving generated by the pension system will decline from current levels, first gradually and then more steeply. Under conservative assumptions about the rate of return on pension assets, "the pension system [will] cease to be a source of saving roughly in 2024," they write. Without changes in contributions or rates of return, the defined-benefit portion of the private pension system could run out of money in 2043.

Happily, the authors find the outlook for defined-contribution plans to be decidedly more optimistic. Scheiber and Shoven find that system to be much less susceptible to running out of assets, and predict that it will be "a modest net source of saving in the economy even in the period with the maximum number of baby boom retirees."

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Since the number of people born from 1946 to 1964 comprise an unusually large segment of the total U.S. population, it is unlikely that the Social Security system will be able to provide the benefits currently being promised to babyboomers. But while policymakers often have turned their attention to Social Security, little thought has been given to the impact of the demographic structure on private pensions. Indeed, Scheiber and Shoven assert that public policymakers have ignored the long-term implications of regulations and tax policy on pension funding in an attempt to reduce the federal budget deficit.

Using 75-year population projections and data on pensions from a number of government sources, the authors predict that pension benefits will be 102 percent of contributions by 2006; by 2025, benefits will be 163 percent of contributions. Scheiber and Shoven write that "It is only natural that when we have an extraordinarily large number of retirees, the real assets of the private pension system will shrink and the system will at least temporarily cease being a source of new investment funds for the economy."

What impact will this have on the prices of pension assets? They predict that the pension system will become a less important purchaser of securities, but not a net seller until the early part of the third decade of the next century. "This could depress asset prices, particularly since the demographic structure of the United States does not differ that greatly from Japan and Europe, which also will have large elderly populations at that time," they conclude.

State Taxes Cannot Redistribute Income

Economic theory implies that state governments cannot redistribute income because people hurt by higher taxes can migrate. For example, if a state government imposes a graduated income tax in an attempt to redistribute income away from high-income taxpayers, then employers in the state will be forced to raise the wages of those high-skilled individuals, or lose them to other states with more favorable tax rules.

In **Can State Taxes Redistribute Income?** (*NBER Working Paper No. 4785*), NBER President **Martin Feldstein** and NBER researcher **Marian Vaillant** show that this prediction is confirmed by the actual experience of individuals' wages in the 1980s. The evidence shows that gross pretax wages adjust so rapidly to the changing tax environment that states cannot redistribute income even for a few years. The authors observe that the wages that individuals received in 1989 were influenced by state tax rates in 1989 (as well as by the individuals' education and work experience), but were no longer influenced by tax rates that had prevailed as recently as 1983.

State governments' attempts to raise aftertax incomes of lower-skilled individuals by cutting their tax rates also are frustrated by the potential interstate mobility of employees. If pretax wages remained unchanged after a tax cut for these lower-skilled individuals, then the number of low-skilled workers seeking jobs in the state would rise. Employers therefore could cut the pretax wages of these employees and still obtain the same supply of individuals that they had before. In the end, low-skilled employees cannot expect a higher net-of-tax income in states that tax them less than in states with higher tax rates.

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The fact that states cannot redistribute income does not mean that states' high tax rates have no effect. The higher gross wages that are required to offset higher taxes make high-skilled labor more expensive relative to low-skilled labor and thus discourage its use. Thus a more progressive state tax induces firms to hire fewer high-skilled employees, and to hire more lower-skilled employees. Increases in state tax progressivity, "by altering the structure of employment in the state and distorting the mix of labor inputs used by firms in the state, create deadweight efficiency losses without achieving any net redistribution of income," Feldstein and Vaillant conclude.

This study is based on data on pretax hourly earnings from the Current Population Surveys for 1983 and 1989, and on tax rates calculated with the NBER's TAXSIM model. DRH

Intellectual "Stars" Are Parents of Biotech

"The American biotechnology industry which was essentially nonexistent in 1975 grew to seven hundred active firms over the next 15 years. This industry is a testament to the value of basic scientific research," write **Lynne Zucker, Michael Darby,** and **Marilynn Brewer** in a recent NBER study (*Working Paper No. 4653*).

They then examine the role of the intellectual capital of scientists making frontier discoveries, the presence of great university bioscience programs and venture capital firms, and other economic variables in the founding of U.S. biotechnology enterprises during 1976–89. They find that "the timing and location of the birth of biotech enterprises is determined primarily by intellectual capital measures, particularly the local number of highly productive 'star' scientists actively publishing genetic sequence discoveries." The effect of the great universities largely flows through the role of the top scientists who perform research there, and a lack of venture capital firms in the local area does not seem to deter the birth of biotech enterprises.

In **Intellectual Capital and the Birth of U.S. Biotechnology Enterprises,** the authors conclude, "[S]tar scientists appear to be the scarce, immobile factors of production." In that regard, biotech may be prototypical of the birth patterns in other innovative industries.

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In explaining their terms, the authors note that, in some sense, biotechnology has been around since people learned to bake bread or ferment wine. Two of its early uses were cross-breeding of animals and growing penicillin. But in this paper, the authors tell us that "biotechnology refers principally to the application of genetic engineering based upon taking a gene from one organism and implanting it in another . . . and production of the outcome of this process."

They consider scientists to possess "intellectual capital" if they embody a specialized body of knowledge that enables them to earn supranormal returns on the cost of obtaining that knowledge. The authors identify 337 leading researchers who they term "stars" on the basis of their genetic sequence discoveries and related articles in major journals. Another 7718 scientists

who served as coauthors on the articles are labeled "collaborators." The authors consider a star or collaborator to be active if he or she has published three or more articles in the current three-year period. By those criteria, they conclude, "the timing and location of new biotech firms and new biotech subunits of existing firms are primarily explained by the presence at a particular time and place of scientists who are actively contributing to the basic science as represented by publications in major academic journals."

Germans Work Fewer Hours Than Americans

In the 1950s and 1960s, Americans worked considerably fewer hours than Germans and other Europeans. Indeed, the United States was among the first industrial nations to establish the eight-hour, five-day work week. But in the 1980s, German working hours dropped below those in the United States. Despite a reputation for industriousness, Germans worked an estimated 10 percent to 15 percent fewer hours per year in 1990 than their counterparts in the United States did.

In **Why Do Americans and Germans Work Different Hours?** (*NBER Working Paper No. 4808*), **Linda Bell** and **Richard Freeman** explore these differences in work time and their causes. Using aggregate data, they report that Americans worked an average [of] 38 hours per week, compared to 36 hours per week for Germans. The gap in hours worked grows after taking account of the fact that Germans take longer vacations and have more holidays: Americans work an average of 1798 hours per year, and Germans work only 1554 hours. Americans also are twice as likely to work on Saturdays, three times as likely to work Sundays, and three times as likely to work seven days a week as Germans are, despite the institutionalized five-day work week common to both countries.

Nonetheless, many Americans want to work longer hours. While the majority of workers in both countries are "satisfied" with their hours of work, given a choice of working more hours for more pay or fewer hours for less pay, one survey finds that 33 percent of Americans would prefer to work longer hours, versus 6 percent who would work fewer hours. In contrast, only 14 percent of Germans desire longer hours, and 10 percent would choose fewer hours. Two other surveys, which ask the question about work choice a bit differently, find a more striking difference in German and American attitudes. Specifically, when the question is asked about hours preferences holding pay fixed, one survey finds that 38 percent of Germans want fewer hours, and only 4 percent want to work more. Phrased the same way, 27 percent of Americans chose longer hours compared with 8 percent who chose fewer hours. This difference between the two countries holds for both men and women, union and nonunion workers, and the self-employed.

Americans are consistently more likely to report that they work hard, "even if it interferes with the rest of [their] lives" than are Germans and other Europeans. Germans are more likely to respond that they work "only as hard as they have to." Some 18 percent of Americans and 33 percent of Germans say they work just for the money. Asked if they would work without pay in their job, 67 percent of Americans said yes, compared to 59 percent of Germans. Asked if leisure was important to them, 40 percent of Americans said yes, compared to 74 percent of Germans.

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Why is it that Germans seem less work-oriented than their European and U.S. counterparts? Bell and Freeman note that in the 1960s, when Germans had lower incomes than Americans, they worked longer hours than Americans and wanted to work even more hours. But this does not explain the sharp difference in attitudes today when both countries have comparable living standards.

The two economists note also that average and marginal tax rates for a typical German production worker are roughly 30 percent higher than tax rates for a typical U.S. production worker. This difference implies that the rewards in working extra hours are smaller in Germany, even at the same rate of pay. Further, German

workers receive more generous social incomes in the form of welfare transfers, health care, unemployment insurance, and subsidized college and university education or apprenticeship programs than workers in the United States. This too should increase the demand for leisure in Germany compared with the United States. But Bell and Freeman point out that other European nations have similar high marginal taxes and generous benefits, yet their workers put in longer hours than the Germans do.

The two economists conclude that high earnings inequality in the United States stimulates the demand for longer hours. "The U.S. wage determining system may be closer to a tournament or piece rate wage system—you work hard to advance, to keep the good job, to keep from falling into a shallow safety net—whereas the German wage determining system and social benefits system is closer to a guaranteed annual income," they write. In the decentralized U.S. labor market, which produces high earnings inequality among workers, the rewards for greater effort are large and the penalties for slacking off are substantial. By contrast, in the highly centralized German labor market, where there is relatively low earnings inequality across workers and institutional laws make employee dismissal difficult, the rewards and penalties related to greater or lesser effort are presumably less extreme, Bell and Freeman write.

This paper uses data from the International Social Survey Programme, the May 1985 U.S. Current Population Survey, and the 1989 European Economic Community Ad Hoc Survey of the Labor Market. The data on full-time manufacturing workers come from the Federation of German Employers' Associations. DRF

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