

The Political Externalities of Immigration: Evidence from the United States

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Abstract

In a standard median voter model, low-income immigration increases the size of the welfare state. Other research suggests evidence for a group-interest voter model, which predicts that welfare will shrink with an increase in low-income immigration. We contend that neither model accurately describes political reality after testing these theories with US data from 1970 to 2010. We use a variety of measures for welfare and related public spending such as Temporary Assistance for Needy Families, K-12 education, and Medicaid. Contrary to expectations from previous work focused on Europe, we find that the amount of immigrant-driven heterogeneity does not have a significant effect on these spending areas, whether considered in total or per capita expenditure. This could be because of countervailing pressures from these two models of voter motivation or because of factors unrelated to immigration, such as differences in institutions.

JEL Codes: I3, H3, J1

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It is one thing to have free immigration to jobs. It is another thing to have free immigration to welfare. And you cannot have both.

—Milton Friedman¹

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¹ Friedman was an advocate of free immigration but thought that most immigration was only good so long as it remained *illegal* since these immigrants would not qualify

I. Introduction

Opposition to immigration is a bipartisan issue. Since many predict that open or liberalized immigration will result in an influx of impoverished foreigners who will place demands on the welfare system, both proponents and opponents of the welfare state favor some level of immigration restriction. Proponents fear decline or collapse of the system, whereas opponents fear expansion of size and scope. Building on previous work on the welfare and immigration connection, this paper investigates whether these immigration fears are well founded by analyzing how immigration and immigration-driven increases in ethnic and racial diversity have affected the size of the welfare state in the United States in recent decades.

There are two competing theories of voter motivation, previously considered in literature from economics and political science. The first view posits a world where narrowly self-interested voters use the political system to maximize their payoff after redistribution. These assumptions have long been considered standard in economics. In this model, the introduction of low-income immigrants results in a widening gap between median and mean income and thus an increase in per capita redistribution as the new citizens vote to increase the level of tax and benefits, taking advantage of their new home's economic prosperity.

Another model, which we formalize, posits *group-interested* voter motivation, where voters care about outcomes for their group, such as others of their ethnicity, and not simply their own material well-being. If this form of motivation dominates at the polls, support for welfare among the native population will diminish if a larger proportion of government funds are diverted from the native group to support outsiders. Such a model is consistent with the research of Alesina, Glaeser, and Sacerdote (2001), who argue that higher levels of ethno-racial heterogeneity in the US explain its lack of a European-style welfare state. In this view, it is not social democratic ideology that best explains the extensive welfare states of Europe but ethnic and racial homogeneity. Furthermore, because immigration threatens this homogeneity, we should expect immigration to be a particularly important and divisive issue in European-style welfare states.

Our original contribution is to (a) formalize the group-interest theory and (b) empirically determine the relationship between welfare

and immigration in the US. Whereas previous work has focused on European politics and the African American population in the United States (Alesina, Glaeser, and Sacerdote 2001), we use US state-level data on several measures of spending and immigrant demographics in our analysis. State governments have wide latitude in determining their level of spending on many different types of welfare, such as Temporary Assistance for Needy Families (TANF) and food stamp (Supplemental Nutrition Assistance Program, or SNAP) benefits (Soss et al. 2001). Our novel method of comparing state-level foreign-born population and immigration-driven increases in diversity over time to the amount of welfare benefits over a long time horizon helps determine the impact of immigration on the size of the welfare state.

Studies of the US use the proportion of Blacks to measure ethno-racial heterogeneity (Stichnoth 2010; Alesina, Glaeser, and Sacerdote 2001). However, that is an incomplete measurement because the proportion of Blacks poorly captures ethno-racial heterogeneity: 72.9 percent of US foreign-born individuals are neither white nor Black (US Census Bureau 2010), so any attempt to measure the impact of immigration on the welfare state must focus on the ethnic and racial groups that dominate the immigrant flow.

Our paper uses state-level total and per capita spending on TANF/Aid to Families with Dependent Children, K-12 education, and Medicaid spending along with the proportion of Hispanics, Blacks, and Asians, proportion of foreign-born immigrants, and proportion of unauthorized immigrants per state from 1970 to 2010.² This method is similar to that used by Alesina, Glaeser, and Sacerdote (2001) but with more years for comparison, more spending measures, and measures of other ethnic and national-origin groups. Our paper also differs from Soss et al. (2001) because we examine the group heterogeneity of the entire state as opposed to focusing only on welfare recipients.

The paper is organized as follows: section 2 describes the two models of voter motivation referenced above; section 3 describes the data and empirical strategy; section 4 provides a discussion of the estimation results and robustness checks; section 5 concludes.

² When discussing group-interested motivation, an obvious question should be how we define the relevant groups. Ethnicity is one potential candidate, as are country of origin, citizenship status, religion, and social class.

II. Models of Voter Motivation

A. Self-Interested Voter Model

The use of assumptions like self-interested motivation, along with methodological individualism, has long been the defining characteristic of public choice economics. Early work in the field was openly hostile to romanticized ideas of public or group interest, and for the most part little has changed. Politicians and voters act the same in the context of politics as in any other context; they act in accordance with what maximizes their material well-being. Applying this model of voter motivation to the connected issues of immigration and redistribution predicts immigration liberalization will result in higher levels of redistribution through a variety of mechanisms.

For our self-interest model we refer to Meltzer and Richard (1981). In this model of the optimal size of government, the only function of government is redistribution, so voters choose a tax rate and corresponding redistributive payment that all citizens receive. The decisive (median) voter chooses a tax rate that maximizes their post-redistribution income; this rate will be higher the larger the difference between their income and the mean income. Since immigrants are predominantly poor, immigration increases the distance between mean and median income, thus increasing the level of redistribution.

To illustrate, consider a model where income is Pareto-distributed and every voter chooses a flat tax and receives an equal proportion of the total amount of collected taxes. Following Meltzer and Richard (1981), the utility function is assumed to be a strictly concave function $u(c, l)$ for consumption, c , and leisure, l , both normal goods. The individual's endowment consists of an ability to produce and a unit of time that they allocate to labor, n . An individual with productivity x earns pretax income

$$y(x) = xn(x). \quad (1)$$

Tax revenues finance lump-sum redistribution of units of consumption per capita, and taxes are levied against earned income. The tax rate is a constant fraction of earned income. There is no saving, and consumption equals disposable income. The decisive (median) voter chooses a tax rate that maximizes their utility, knowing that higher tax rates will disincentivize productive citizens to work. The key results of this model are that voters with income below the income of the decisive voter will favor higher taxes and more redistribution, while the voters with income above the decisive voter desire lower taxes and less redistribution. Since immigrants are,

as a rule, generally below the median income, on the margin they will favor higher levels of redistribution.

In the real world, several other models of voter motivation could lead to the same conclusion as the self-interest model.³

B. Group-Interest Voter Model

While it is perfectly reasonable to assume humans act in primarily self-interested ways, the rational choice framework may easily be misapplied to the act of voting. The probability of casting the decisive vote in virtually any election is infinitesimal. Since the act of voting is costly, from the perspective of maximizing their material self-interest, voters are better off staying away from the polls. This realization has led some social scientists to consider alternative voter motivations. Of particular interest to us is group-interested voter motivation, where voters derive utility from supporting causes that favor their group, usually ethnic or racial, even if they themselves do not receive a direct payoff from the policy (Sears and Funk 1990; Bobo 1983).

Applying the group-interested voter motivation to the issue of welfare, voters support welfare when it enriches members of their group. This might explain, for instance, why people in every country are more supportive of welfare for their own citizens than they are of foreign aid initiatives. When considering the issue of immigration, group interest could explain why redistribution enjoys extensive support in racially homogeneous Europe but is relatively unpopular in the racially diverse United States (Alesina, Glaeser, and Sacerdote 2001; van Oorschot and Uunk 2007; Soroka, Johnston, and Banting 2006).

We use the same assumptions as in the self-interest model save one: voters gain utility from voting for the tax and redistribution

³ Immigrants could migrate and then fail to secure employment upon arriving, becoming welfare dependent as a result; this would increase the size of the constituency over time that supports welfare (Borjas 1999). Alternatively, since immigration increases economic inequality, it could influence both immigrants and natives who dislike inequality to vote for pro-welfare political parties (Alesina and Glaeser 2004). Immigrants also tend to be younger and have higher fertility rates than natives, increasing the amount of welfare spending for children (Stroka, Johnson, and Banting 2006). Yet another formulation is that welfare decreases economic competition between natives and immigrants, producing a higher degree of solidarity between those two groups and more support for welfare (Oorschot and Uunk 2007).

package that maximizes the welfare of their group instead of themselves. Each voter belongs to some relevant group g ; for simplicity we consider only two groups, immigrants I and natives N . In the pre-immigration equilibrium, everyone belongs to group N and chooses a tax rate τ and corresponding redistribution level r that maximizes total utility

$$u = f(\tau, r). \quad (2)$$

Once the immigrant group is added to the population, tax rate τ now corresponds to a smaller proportion of r for each member of group N . If ϱ is the proportion of the population belonging to the native group, for total taxes T collected

$$r = (1/N) \times \varrho \times T. \quad (3)$$

Therefore, a fall in ϱ will result in a decrease in support for redistribution for each member of the native group relative to the pre-immigration equilibrium.

In this case, the inclusion of the immigrant group has an ambiguous effect on native support for welfare. If the immigrant group is a minority of voters with a lower mean income than the native group, as is the case for most immigration to the US, then native support for welfare will decline with immigration. Simply stated, the proportion of each dollar collected in taxes distributed to other natives has declined. Since each voter only cares about the welfare of their own group, on the margin each voter will decrease support for redistribution when the size of the immigrant group increases.

This model predicts a negative relationship between immigration and welfare, which has been suggested by some previous research (Bay and Pedersen 2006; Lund and Thori 2007). Some researchers suggest that interpersonal altruism is linked to race for evolutionary reasons (Alesina, Glaeser, and Sacerdote 2001). These theories suggest “racial fragmentation . . . and the disproportionate representation of ethnic minorities among the poor clearly played a major role in limiting redistribution” in the US compared to other developed nations that have larger welfare states and far-greater ethnic and racial homogeneity (Alesina, Glaeser, and Sacerdote 2001; Soroka, Johnston, and Banting 2006). The US has at least three times as much ethno-racial heterogeneity as any country in northern Europe (Alesina et al. 2002), which might explain the stark contrast in their welfare states. This also means that increasing heterogeneity could be a concern for the welfare states of Europe: in 2000, over 50 percent of the European population was concerned about immigrant abuse of welfare, with those living in

nations with higher social expenditures convinced that immigrants are more likely to abuse welfare (Boeri 2006). A Norwegian survey about the political feasibility of introducing a minimum income found that 66 percent of Norwegians initially favored the scheme. However, merely mentioning that non-Norwegians residing in the country would receive the same benefits reduced support for the program to only 45 percent (Bay and Pedersen 2006). In Sweden, increased immigrant population share led to less support for redistribution among native Swedes according to surveys conducted every election year by the Swedish National Election Studies Program (Dahlberg et al. 2011). Furthermore, some authors have suggested that immigration has given new life to political parties that bundle antiwelfare policies with xenophobic policies (Lee, Woojin, and Roemer 2006). Ethno-racial heterogeneity can also explain variance in government-supplied services across US cities, metropolitan statistical areas, and urban counties (Alesina, Baqir, and Easterly 1999).⁴

III. Data and Empirical Strategy

A. Data

We constructed a unique data set of TANF benefits on the state level per family of three for specific years going back to 1970.⁵ For years prior to the mid-1990s, we constructed the data from reports on TANF delivered to the House Ways and Means Committee. The number of TANF beneficiaries on the state level was reported by the Office of Family Assistance at the US Department of Health and Human Services. An employee from the US Department of Agriculture gave us SNAP data prior to 2006.⁶ For 2006 to the present, we rely on data published on the department's website. Data on the size of unemployment insurance benefits by state are only available from 1986 onward through correspondence with an employee from the Department of Labor.⁷

⁴ A 1 standard deviation increase in ethno-racial heterogeneity reduced total spending on roads by 0.25 standard deviations and welfare by 0.2 standard deviations. The shares of public spending on sewers and trash pickup are also inversely related to an area's degree of ethno-racial heterogeneity.

⁵ The Urban Institute has compiled TANF-benefit-level data since the mid-1990s, which we use to confirm our findings.

⁶ We corresponded with Nicholas Nadine at the US Department of Agriculture, October 11, 2012.

⁷ We corresponded with Kevin Stapleton at the Department of Labor, March 15, 2012.

For the Hispanic, Asian, Black, and immigrant populations, we rely on the US Census. We also use data from the American Community Survey for estimates in 2005, 2008, and 2010. Estimates of the unauthorized or illegal immigrant populations on the state level come from estimates conducted by the Department of Homeland Security, the Pew Research Hispanic Center, and the Heritage Foundation. Data on K-12 spending and state Medicaid expenditures come from annual reports of the National Association of State Budget Officers. Data on inflation were gathered from the Bureau of Labor Statistics. Data on the income of individuals and households were gathered from the US Census.

B. Empirical Model

Given that there exists a theoretical and empirical (based on European work) argument that increased immigration decreases support for the welfare state, we put both the self-interest and group-interest models to the test. Our empirical analysis is performed using US state-level time-series data on median benefits as the dependent variable and proportion of Hispanics, proportion of Asians, and proportion of immigrants as independent variables.

We estimate the regression

$$Welfare_{it} = \alpha \times ERH_{it} + \beta \times X_{it} + \rho_i + \tau_t + \epsilon_{it} \quad (4)$$

where *Welfare* is a measure of either (a) total spending or (b) benefit levels for the various programs we analyze: TANF, Medicaid, and K-12 education budgets. *ERH_{it}* measures ethno-racial heterogeneity in state *i* in year *t*, vector *X* contains demographic covariates and controls such as income, and ρ , τ represent state- and time-level fixed effects.

For our covariates, we include median income in each state, recognizing that states with higher cost of living will have higher benefit levels than other states with about the same level of relative support for welfare. Other specifications define ethno-racial-nativity heterogeneity as the proportions of Blacks, Hispanics, Asians, immigrants, and *illegal* immigrants. Previous work established that percentage Black is a significant contributor to the relatively low level of US spending, with states having higher proportion Black having significantly lower TANF benefit levels (Alesina et al. 2001).

IV. Results

A. Estimation Results

We present the results of the regressions in tables 1–2. Income controls and state and year fixed effects are used in most specifications. These results differ from previous work and do not support either theoretical model of the effect of immigration on redistribution. Strikingly, this result holds for both per capita benefits and total spending levels.

These findings are consistent and robust. No effect is found for immigrant population share or ethnic diversity on TANF benefits per family or the total spent on the program. Likewise, there is no effect on total or per-pupil K-12 spending nor a total or per capita effect on Medicaid spending. Therefore, these findings lend no support to the idea that immigration or the resulting immigration-driven increases in ethnic diversity are linked to higher or lower public spending on any of these measures.

Limited TANF eligibility for immigrants could help explain the lack of native reaction to immigration and diversity. However, data from the General Social Survey suggest that the median American thinks the government provides too much assistance to immigrants. In reality, the programs have stricter eligibility requirements than before: the Personal Responsibility and Work Opportunity Reconciliation (welfare reform) and Illegal Immigrant Reform and Immigrant Responsibility Act of 1996 restricted noncitizen eligibility for TANF. Prior to 1996, noncitizens were generally eligible for the same welfare benefits as citizens, but the above legislative acts barred TANF for new immigrants for five years after their entry. After the five-year bar, states were allowed discretion in allowing noncitizens access to TANF. As of 2010, thirty-four states and Washington, DC, allowed lawful permanent residents who have been in the US for more than five years to draw on TANF. Many states restored portions of the welfare benefits limited by welfare reform. Because of these laws and a diminishing poverty rate among immigrants, 4 percent of immigrants were using TANF in 1995 but only 1 percent were in 2009 (Wasem 2010).

Immigrant eligibility for SNAP benefits was also limited to lawful permanent residents by the 1996 welfare reform, but states

can extend SNAP benefits to some immigrants if they choose.⁸ On the eve of welfare reform, 7.1 percent of SNAP beneficiaries were noncitizens. After the passage of welfare reform, the enrollment of noncitizens as a percentage of total beneficiaries dropped steeply so that by 2009 only 3.8 percent of SNAP beneficiaries were noncitizens. States have wide discretion in setting SNAP benefit levels in partnership with the US Department of Agriculture. Several states choose to give SNAP benefits to immigrant groups excluded by the federal welfare-reform law.

Data from the fifty states and the District of Columbia for several decades ensure sufficient statistical power. Immigration has virtually no role in determining the level of TANF benefits, either per capita or for the entire program. Nor does immigration cause higher spending on K-12 education or Medicaid. We speculate that political institutions, regional differences in ideology, and other factors not influenced by ethnic and racial heterogeneity determine the size of the welfare state. We are left to conclude that neither the self-interest nor group-interest model sufficiently explains the effect of immigration on welfare policy outcomes. While these tests are not exhaustive, it would seem that fears about immigration's effect on welfare in either direction should be tempered.

B. Alternative Explanations

Political institutional factors that could explain the difference in welfare-state size between Europe and the US are American federalism, nondemocratic institutions such as the Supreme Court and representation by state and not by population in the US Senate, substantive checks and balances, and a lack of proportional representation, which might favor pro-welfare political parties (Alesina and Glaeser 2004). The differences could also simply be derived from a different sense of social justice and differing evaluations of how meritocratic economic outcomes are in the capitalist system. This suggests that it is ideology, not demographics, that determines the size of the welfare state.

Our analysis reveals that Texas and California have the largest Hispanic populations in the United States but radically different levels of welfare. In 2010, California TANF payments to a family of three were \$694, which is 167 percent greater than the benefit for

⁸ Our analysis of immigrant-induced ethno-racial heterogeneity extends back to 1970, twenty-six years before the 1996 legislative acts. Furthermore, those laws had no impact on the *level* (per capita) of welfare benefits, only eligibility.

a similar family in Texas (\$260). In 2010, nearly 37 percent of both states' populations were Hispanic, but California had an immigrant population proportion that was 65.8 percent greater than Texas's; in California, a larger proportion of immigrants come from non-Hispanic source countries, especially Asia. In 2010, 53.4 percent of all foreign-born residents in California were Hispanic, while 71.6 percent of foreign residents in Texas were Hispanic. In the same year, New Mexico (the most Hispanic state at 46.1 percent) had a TANF level halfway between Texas and California at \$447 per month. The Hispanicity of these states' populations does not seem to predict the size of the welfare benefit in any way.⁹

Successful immigrant assimilation likely decreases negative native reactions to immigrants (Burgoon 2011). Although different ethnic and racial groups reduce solidarity, which diminishes support for the welfare state (Lee, Woojin, and Roemer 2006), the more culturally assimilated immigrants are, the more native-born Americans support welfare programs that assist immigrants. Therefore, the lack of evidence for group-interest motivation in welfare policy outcomes could be evidence of rapid assimilation. Native perceptions of assimilation are possibly influenced by the rate of immigration into a community relative to that community's historical rate of immigration. A large influx of immigrants in a short period, such as was the case in recent decades in California, could stifle the ability of

⁹ California, with its large welfare state and large Hispanic population, may be an outlier and skew our results because of political circumstances. The political institutions of California and Texas are very different. California relies heavily on direct democracy and has frequent state-level referenda regarding social spending. Texans do not vote for state-level referenda, so outrage over perceived problems like immigration is not immediately reflected in policy. Meanwhile, California voters are conflicted, voting for spending increases on welfare, education, and other policies while also voting for caps on property and other taxes to pay for those programs (Senik 2009). Moreover, Texas has a part-time legislature constitutionally limited to a 140-calendar-day session, while the California legislature is full-time. Texas's Republican Party has a reputation for being focused on long-term courting of the Hispanic vote, unlike the Republican Party of California, which is openly hostile to immigration. Demographic trends have also differed in these states for some time: In Texas, Mexican immigrants have been a major part of the state since its founding. California, on the other hand, went from one of the whitest states in 1960 to one of the least white in 1994, and that rapid change may help explain the anti-immigrant campaign under Pete Wilson (Unz 2011). California's peculiar history, political institutions, and Republican Party strategy could explain California's unusually large welfare state.

immigrants to culturally assimilate.¹⁰ Unease about immigration has less to do with the level of heterogeneity and more to do with the different cultural practices, religions, and immigrant enthusiasm to assimilate (Epstein and Hillman 2003). Seventy-three percent of American voters think that immigrants should adopt America's culture, language, and heritage (Rasmussen 2011). The lack of effect of immigration on benefit spending could suggest that American citizens believe that immigrants are successfully assimilating into American society.

Another possibility is that ethnic diversity among the working class prevents that class from effectively organizing and supporting a successful national labor movement and political action for a large welfare state. American labor unions in the late nineteenth and early twentieth centuries were largely organized along racial and ethnic lines, not along class lines as in Europe. Karl Marx noted that the American working classes were beset by sectarian and ethnic differences that kept them from uniting against their employers. Marx gave the example of Irish and English working men refusing to join unions or be consolidated into one political party because of religious and ethnic grievances. Socialists and labor unionists favoring redistribution had much greater success organizing people by their shared ethnicity or other subcultural membership. Their greatest successes were in overwhelmingly German areas such as Reading, Pennsylvania, and ethnically homogeneous Oklahoma and Milwaukee (Lipset and Marks 2001). Most organized workers decided that their best course of action was to defend their narrow individual job prospects against incursion by labor market competitors of other racial groups (p. 133).

Another explanation for why a group-interest model might fail to explain what is going on is that new immigrants cannot vote for a number of years. Over time, as immigrant-descended groups grow in size and thus political power, perhaps a group-interest model will have more explanatory power.

V. Conclusion

We demonstrated that immigrant-driven increases in ethnic and racial heterogeneity do not have a statistically or economically significant

¹⁰ Recently, Arizona, Georgia, Alabama, Indiana, South Carolina, and Wisconsin became immigrant-destination states for the first time in over a century. Each has passed restrictive immigration laws, so future research should explore the link between historically unprecedented rates of immigration and native reactions.

effect on the level or amount of welfare benefits (total or per family), K-12 education (per pupil or total), or Medicaid per capita expenditure. Our result is surprising because this is contrary to similar studies of European politics. Moreover, it is not consistent with other popular models of voter motivation like the self-interest and group-interest models. We suggest that countervailing pressures from different sources of voter motivation, as well as the varied political institutional environment of the US, work to balance any effect of immigration on the welfare state.

Since the probability of decisiveness is so low, the cost of making any particular choice at the poll is low. If voters have preferences over beliefs, we should expect them to indulge those preferences rather than vote for candidates and policies that are in their material self-interest (Caplan 2008). Group interest is a possible alternative, but our research does not support that as a sole motivation. There are likely many reasons why people vote for the policies they do: self-interest, group interest, culture, and ideology, with weights that vary from person to person and election to election. This paper furthers our understanding by providing evidence against some popular theories, but it represents only the beginning of a larger research program that seeks to explain why certain policies are chosen over others. This paper furthers our understanding by providing evidence against some popular theories, but it represents only the beginning of a larger research program that seeks to explain why certain policies are chosen over others. Future research into the interaction between immigration and welfare should apply a similar comprehensive analysis to other politics and time periods to see whether these results are truly robust. Researchers should also pay attention to which group memberships are important when testing for group-interested motivations. Since both group membership and welfare are slightly ambiguous terms, future research should also focus on using different measures. When it comes to how politics choose the amount of welfare benefits, our results show that an ethnically diverse population is not destiny. The current politics of high-immigration states such as Texas and California support this reading, but those interested in the long-term effects should keep an eye on these variables over time.

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