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# Welfare reform, labor supply, and health insurance in the immigrant population

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## Abstract

Although the 1996 welfare reform legislation limited the eligibility of immigrant households to receive assistance, many states chose to protect their immigrant populations by offering state-funded aid to these groups. I exploit these changes in eligibility rules to examine the link between the welfare cutbacks and health insurance coverage in the immigrant population. The data reveal that the cutbacks in the Medicaid program did not reduce health insurance coverage rates among targeted immigrants. The immigrants responded by increasing their labor supply, thereby raising the probability of being covered by employer-sponsored health insurance.

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## 1. Introduction

The number of immigrants entering the United States grew rapidly in recent decades. During the 1950s, only 250,000 legal immigrants entered the country annually. By the 1990s, nearly 1 million persons entered the country legally each year and another 300,000 entered—and stayed in—the country illegally.<sup>1</sup> An increasing number of the new immigrants fall in the lower range of the skill and income distributions. In 1960, the typical immigrant earned 4% more than the average native worker. By 1998, the typical immigrant earned 23% less (Borjas, 1999).

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<sup>1</sup> US Immigration and Naturalization Service (2000).

The trends in the size and skill composition of the immigrant population sparked a contentious debate over the economic and demographic impact of immigration.<sup>2</sup> For instance, there has been a great deal of concern over the possibility that immigrants do not “pay their way” in the welfare state (Smith and Edmonston, 1997). And, in fact, the evidence suggests that immigrant households are now much more likely to receive public assistance than in the past.<sup>3</sup>

Concurrent with the resurgence of large-scale immigration, there has been an increase in the number of persons who lack health insurance coverage.<sup>4</sup> Recent research suggests there may be an important link between these two trends. Despite the relatively high participation rate of immigrants in the Medicaid program, Camarota and Edwards (2000) report that immigrants are also disproportionately more likely to be in the population of uninsured persons: although persons in immigrant households make up only 13% of the population, they make up 26% of the uninsured. Camarota and Edwards conclude that “immigrants who arrived between 1994 and 1998 accounted for 59% of the growth in the size of the uninsured population” during that period (p. 5).

The 1994–1998 period coincided with the enactment of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA). The 1996 welfare reform legislation specified a new set of rules for determining the eligibility of foreign-born persons to receive practically all types of federal aid. In rough terms, PRWORA denies most means-tested assistance to non-citizens who arrived after the legislation was signed in 1996, and limited the eligibility of many non-citizens already living in the United States. The available evidence indicates that the rate of welfare participation in immigrant households declined sharply—relative to the decline in native households—in the aftermath of PRWORA (Borjas, 2001; Fix and Passel, 1999).

This paper uses data drawn from 1995 to 2001 Current Population Surveys (CPS) to examine the impact of PRWORA on health insurance coverage among immigrants. Because PRWORA reduced immigrant participation in welfare programs (including Medicaid), it seems reasonable to suspect that the welfare cutbacks should have increased the size of the foreign-born uninsured population. Remarkably, this expected increase did *not* occur. In fact, the fraction of immigrants who were not covered by health insurance remained roughly stable (or fell) during the period.

The immigrant provisions in PRWORA could potentially affect only a subset of the immigrant population, depending on the immigrant’s state of residence, on the type of visa used to enter the United States, and on the immigrant’s naturalization status. This variation in eligibility rules can be exploited to examine how immigrants responded to the cutbacks in public assistance. It turns out that the immigrants most adversely affected by PRWORA significantly increased their labor supply, thereby raising the probability that they were covered by employer-sponsored health insurance. In fact, the evidence indicates that the increase in the number of immigrants covered by employer-sponsored health insurance was large enough to completely offset the impact of the Medicaid cutbacks. The study, therefore,

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<sup>2</sup> The voluminous literature on the economic impacts of immigration is surveyed in Borjas (1994), LaLonde and Topel (1996), and Friedberg and Hunt (1995).

<sup>3</sup> Blau (1984) and Borjas and Hilton (1996) examine the trends and determinants of immigrant welfare use.

<sup>4</sup> See Fronstin (1998) and Lewis et al. (1998).

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