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IMMIGRATION AND ITS CONTRIBUTION TO OUR ECONOMIC STRENGTH PART II

HEARING

BEFORE THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

ONE HUNDRED THIRTEENTH CONGRESS

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IMMIGRATION AND ITS CONTRIBUTION TO OUR ECONOMIC STRENGTH
PART II

WEDNESDAY, MAY 8, 2013

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The committee met, pursuant to call, at 9:30 a.m. in Room 216 of the Hart Senate Office Building, the Honorable Amy Klobuchar, Vice Chair, and the Honorable Kevin Brady, Chairman, presiding.

Representatives present: Brady, Paulsen, Hanna, and Delaney.

Senators present: Klobuchar and Coats.

Staff present: Corey Astill, Ted Boll, Conor Carroll, Gail Cohen, Connie Foster, Niles Godes, Paige Hallen, Colleen Healy, J. D. Mateus, Robert O'Quinn, and Brian Phillips.

OPENING STATEMENT OF HON. AMY KLOBUCHAR, VICE CHAIR, A U.S. SENATOR FROM MINNESOTA

Vice Chair Klobuchar. Good afternoon, everyone. We are going to get started. I was telling the Chairman and both our witnesses that we have votes in the Senate starting at 2:00. So he is going to ably take over this hearing, and I hope to return, and I know we have a number of House Members who are going to be stopping by. But a lot of the Senate will be over in the Chamber voting on the Water Resources Development Act.

I would like to thank both of our witnesses for being here. This is a continuation of our hearing from yesterday on Immigration and Its Contribution to Our Economic Strength. It was a very positive and well-attended hearing, and I thought it was important to examine some of the economic issues involved in comprehensive immigration reform, as the Senate is going to be looking at the bill that some of the Senators have put together on a bipartisan basis tomorrow in the Judiciary Committee on which I serve.

In the first part of the hearing yesterday we heard from Grover Norquist and Dr. Adriana Kugler about how they believe immigration creates jobs and accelerates economic growth.

They told this Committee that the skills of immigrants complement the skills of workers born in the United States leading to what they believe are productivity gains across the economy.

Yesterday's discussion was a very good one, and we look forward to continuing it today.

I would like to introduce today's distinguished panel and thank both of you for being here, before I turn it over to the Chairman.

First of all, Dr. Madeline Zavodny is a Professor of Economics at Agnes Scott College, where she serves as Chair of the Economics Department. She is co-author of the book "Beside the Golden Door: U.S. Immigration Reform in a New Era of Globalization." Dr. Zavodny has also been on the Economics Faculty at Occidental College and worked at the Federal Reserve Bank of Atlanta, and the Federal Reserve Bank of Dallas.

Dr. Steven Camarota is our second witness. He is the Director of Research for the Center for Immigration Studies. Dr. Camarota's research focuses on the consequences of legal and illegal immigration, and has been featured by leading print and electronic news outlets. He served as lead researcher on a contract with the Census Bureau examining the quality of immigrant data in the American Community Survey.

Thank both of you. Dr. Zavodny, if you would like to begin, but the Chairman I hope would say a few words first.

OPENING STATEMENT OF HON. KEVIN BRADY, CHAIRMAN, A U.S. REPRESENTATIVE FROM TEXAS

Chairman Brady. I will be very brief. Again, I appreciate Vice Chairman Klobuchar for identifying this important issue, and timely issue.

I am convinced the priorities that America sets for immigration are too important to get wrong because of their impact on security and our economic future. I am convinced we need to firmly shut the backdoor of illegal immigration in order to keep open and fix the front door of legal immigration.

Economically, with America's population not replenishing itself, attracting workers that fill in the gaps is absolutely essential if we want to remain the strongest economy in the world through the 21st Century.

Right now, my view is that the Senate proposal appears heavy on family ties in citizenship rather than on skills and guest workers. That may be short-sighted. While we train more American workers for the jobs of today and tomorrow, who should we encourage to immigrate to the United States? And what are our priorities? What criteria should we use?

And finally, this Committee is looking at what overall are the benefits and the costs of immigration reform over the long term. Which workers benefit the most? Those who are here today, or those immigrating? What is the overall impact on our economy going forward?

Like you, Madam Vice Chair, I am very excited about the witnesses here today and I yield back.

[The prepared statement of Chairman Brady appears in the Submissions for the Record on page 22.]

Vice Chair Klobuchar. Dr. Zavodny, why don't you begin and I will be going off for the votes and hope to return. Thank you.

STATEMENT OF DR. MADELINE ZAVODNY, PROFESSOR OF ECONOMICS, AGNES SCOTT COLLEGE, DECATUR, GA

Dr. Zavodny. Thank you, Chairman Brady and Vice Chair Klobuchar, and members of the Committee:

Thank you for having me here today. I am very happy to be here with you to discuss the economics of immigration. A growing economy attracts immigrants, and in turn immigrants make the economy grow.

Immigrants contribute to the economy as workers, as consumers, and as taxpayers. Immigrants fill vital niches in the labor market. They go where the jobs are. They contribute to innovation and business creation. They revitalize declining areas, and they slow the aging of the American workforce.

Immigration increases the size of the labor force, which makes our economy bigger and GDP bigger. Foreign-born workers comprise about 16 percent of the workforce right now, and immigrants accounted for about one-half of labor force growth since the mid-1990s. So they are important to the economy.

Conventional estimates of immigrants' contributions to the U.S.-natives' national income, or Gross Domestic Product, GDP, are actually relatively small. They are typically about 0.5 percent of U.S. GDP annually. Most of the income gains from immigration actually accrue to the immigrants themselves in terms of their wages. However, such calculations miss a number of the economic gains from immigration, including its effects on innovation and business creation.

One of the most important economic contributions immigrants make is to innovation, which raises productivity growth. There is compelling evidence that high-skill immigrants play an important role in innovation.

For example, research by Jennifer Hunt shows that highly educated immigrants earn patents at more than twice the rate of highly educated natives. Another important economic contribution immigrants make is that they create businesses at higher rates than do U.S. natives.

This contribution is most notable in the high-tech sector where immigrants were key founders in a quarter of U.S. high-tech startups in recent years, and half of high- tech startups in Silicon Valley.

Low-skilled immigrants' economic contributions are harder to see than those of high-skilled immigrants, but low-skilled immigrants do contribute to our economy. They fill dirty, dangerous, and dull jobs that many U.S.-born workers are reluctant to take. Low-skilled immigration reduces the prices of goods and services that these immigrants produce, which helps all Americans as consumers.

Another important economic contribution of immigrants is that they tend to go where the jobs are. This mobility is important because it allows growth to continue in booming areas without increasing further wage pressures there, while reducing unemployment or declines in wages in areas that are growing more slowly.

One of the most hotly disputed questions in economics is whether other immigration adversely affects competing U.S. workers. Basic economic theory predicts that immigrant inflows reduce earnings and employment among competing U.S. workers. However, a grow-

ing body of economic research indicates this is not necessarily the case, particularly for workers who have at least completed high school.

For example, my research for the American Enterprise Institute and the Partnership for a New American Economic concludes that immigration overall does not have an adverse effect on employment among U.S. natives, and highly educated immigrants, especially those who work in STEM fields, actually have a positive effect on natives' employment.

I think there is more consensus among economists about immigrants' fiscal impact. Much as is true for natives, the fiscal impact of more educated immigrants is positive; while the fiscal impact of less educated immigrants, especially those who have not completed high school, is negative.

The fiscal impact of current immigrants is pretty small at the federal level, but state and local governments in areas with large populations of low-skilled immigrants experienced a sizeable negative fiscal impact.

I will now turn to a few quick points about immigration policy reform. From an economic standpoint, immigration policy should prioritize those immigrants who are most likely to make the biggest economic contribution. This suggests that immigration policy should put considerable emphasis on immigrant skills. The most highly educated immigrants make the greatest economic and fiscal contributions. More generally, putting greater priority on immigrants who have a job offer from a U.S. employer when they are admitted to the country would boost the economic and fiscal impacts of immigration relative to current policy. In order to boost immigration's economic impact, immigrant inflows should be more closely tied to the business cycle. The economy would fare better if more immigrants enter when the economy is booming and fewer when it is weak. In addition, market forces should play a greater role in determining which immigrants are admitted, as well as when they are admitted. Thank you for your attention, and I look forward to your questions.

[The prepared statement of Dr. Madeline Zavodny appears in the Submissions for the Record on page 23.]

Chairman Brady [presiding]. Thank you.

Dr. Camarota.

STATEMENT OF DR. STEVEN A. CAMAROTA, DIRECTOR OF RESEARCH FOR THE CENTER FOR IMMIGRATION STUDIES, WASHINGTON, DC

Dr. Camarota. Well I would like to thank the Committee for inviting me here to discuss obviously this very important topic.

When considering the economics of immigration, there are three related but distinct issues that should not be confused but often are:

First, there is the impact on the aggregate size of the U.S. economy.

Second, there is the fiscal impact—taxes paid versus services used.

Third, there is the impact on wages and the employment opportunities available to natives.

I will touch on all three of these topics briefly in my testimony. First, there is no question that immigration makes the U.S. economy larger. More people means a bigger GDP, a bigger Gross Domestic Product. However, bigger is not necessarily richer. Pakistan has a larger economy than Ireland, but it is not richer. It has a larger economy simply because it has more people.

To benefit natives, immigration would have to increase the per capita GDP of natives. As the Nation's leading immigration economist George Borjas at Harvard points out in a recent paper, 98 percent of the increase in GDP immigrants create goes to the immigrants themselves in the form of wages and benefits. There is no body of research indicating that immigration substantially increases the per capita GDP of the native-born, or existing population. As I will discuss later, the available evidence indicates that for the native-born population immigration is primarily redistributive, increasing the income of some while reducing the income of others.

Now the second important issue to think about in immigration is their fiscal impact. Taxes paid by immigrants—that is, minus the costs they create. There is general agreement that less-educated, lower income immigrants are a net fiscal drain, while more educated immigrants are a net fiscal benefit, paying more in taxes than they use in services.

Just to give you one example, the National Research Council estimated that the net lifetime fiscal drain of an immigrant without a high school education is −$89,000; for an immigrant with only a high school education, it was −$31,000, and that excludes any costs for their children, just the original immigrant.

However, the National Research Council also found that educated immigrants were a net fiscal benefit. Now the recent Heritage Foundation study that has gained so much attention finds exactly the same thing. Because three-fourths of illegal immigrants have no education beyond high school, allowing them to stay does create large fiscal costs even though most of those individuals work. The fiscal drain less educated immigrants, or less educated natives for that matter, create is not because they don't work. But in the modern American economy, less educated people earn modest wages. As a result, they make modest tax contributions and typically they use a good deal in public services—means' tested in particular. Allowing less educated immigrants into the country unavoidably creates large net fiscal costs.

Now the final, third issue, surrounding the economics of immigration is probably the more contentious, which is its impact on employment and wages of the native-born. Basic theory does predict that immigration should create small gains for natives, but to do so it must redistribute an awful lot of income from those in competition with immigrants to those not in competition with immigrants, or to businesses that use immigrant labor. The size of the net gain will be tiny relative to the size of the economy and the size of the redistribution. If we look at immigrants, and given their share of the labor force, it looks like immigration redistributes about $400 billion.

The losers tend to be the least educated and the poorest Americans who face the most competition from immigrants. The winners

are business owners who employ immigrants, and those native-born workers not in competition with immigrants. So for example, about half of the maids in the United States are immigrants, but only 6 percent of the lawyers are immigrants. So lawyers don't face much job competition. There should be very little adverse impact. But for the 850,000 U.S.-born maids, there should be a significant downward pressure from increasing the supply of workers.

Let me conclude by saying again that, first, immigrants make the economy larger. There is simply no question. But not significantly richer. Second, the fiscal impact is entirely dependent on the education levels of the immigrants. Third, there is a redistributive nature of immigration. The question I guess for this Committee is: Is it fair to reduce the wages of the young and less educated who face the most competition, while more educated and affluent Americans can see their wages and income increase? And that I think is really one of the key questions for the country to decide.

[The prepared statement of Dr. Steven A. Camarota appears in the Submissions for the Record on page 29.]

Chairman Brady. Thank you, both.

Beginning with the longer term problem, America's population is not replenishing itself over the long term. We will have gaps in the jobs that need to be filled if we are to compete and win against China, Europe, Brazil, other competitors as they go forward.

Dr. Zavodny, you made the point that immigration policy should prioritize the type of immigrants who are most likely to make the biggest economic contribution. You pointed to those who have a job offer. That ebbs and flows with the budget cycle, and it is market-driven rather than government-driven.

I know we have only seen the Senate proposal so far in broad outlines. Does their proposal meet those priorities?

Dr. Zavodny. That's a good question.

Chairman Brady. And I don't mean overall, but looking at the visa, the guest worker, sort of the focus on skills.

Dr. Zavodny. I think that the Gang of Eight bill, or Bessie Mae, is a vast improvement over current policy in that it reduces some flows of family-based immigrants. It dramatically increases the number of green cards available on the basis of employment, particularly to very highly skilled workers who will no longer count against the cap. Dependents won't count against the cap. It increases the number of H–1B visas, and that is a good thing.

On the other hand, it creates lots of new rules for the H–1B program that might reduce employer willingness to use that program, and that might be of concern.

So I think it is better than current policy. Is it ideal? Perhaps not.

Chairman Brady. Current policy is a bar set awfully low, considering both the high-skilled end which we've been at 110,000 visas before were filled as well.

Dr. Zavodny. Right.

Chairman Brady. On the lesser skilled, 20,000 a year stairstepped over to 75,000 doesn't seem market driven. Neither does the ag numbers, necessarily, although we probably have a better handle on that.

Dr. Camarota, same question. What should our priorities be in looking at the—in addition to training more American workers, what should our priorities be?

Dr. Camarota. Well let me start with your original first part, too, about the impact of immigration on sort of the aging of American society.

There's a lot of research on this question, and the short answer is: It doesn't make much difference. Let me give you a statistic to help you understand why immigration does not really slow the aging.

If you look at the total fertility rate in the United States, which is one of the ways that you try to have a more youthful population—how many children are born per woman—it is 2 children per woman in 2011. If you take out all the immigrants and recalculate it using the American Community Survey, you get 1.9 children. So you get about a .1 increase. The immigrants have more children, somewhat, and they do pull it up, but not much.

Over the next 40 years, a million or a million-and-a-half immigrants a year might offset the aging of the U.S. population by 10 or 15 percent. There are some mathematical reasons which I won't go into why, but if you think about the underlying fertility number it helps you understand why immigration does not fundamentally change the age structure in the United States unless you were to contemplate like 5, 10 million immigrants a year, and then accelerate that year after year.

Now on the larger question of what we should do, remember this bill accelerates family immigration for 10 years. There are 4.5 million people who this bill contemplates admitting in the first 10 years that are currently under family-based immigration. That is, without regard to their education and their skills.

At least for the first 10 years, it looks like this bill doubles immigration, legal immigration, about a million a year to 2 million a year. But the increases, it is not clear whether the balance will be more skilled. It is possible the new flow of immigrants will be about similar to the flow we have now.

After 10 years—and who knows what is going to happen after 10 years—that might change. But for the first 10 years, this does not increase the flow of skill because it accelerates family immigration so much.

Chairman Brady. Got it. Can I ask this, as I finish up. There is general agreement that immigrants with necessary skills that fill gaps in our workforce are helpful, very helpful to the economy.

Have any studies been done of what were the impacts of the mid-1980s, the last major immigration reform, where 2.5 million roughly, 3 million undocumented were legalized? What was their impact? Do we have any studies on their impact on innovation? On patent holding? You know, I mean all the very positive effects of immigrant creativity and innovation and hard work? What do we know about what happened then? Because we have a bit of a comparison today only with a larger number.

Dr. Zavodny. So in brief, 1986 IRCA legalized 2.7 million immigrants who had relatively low skill levels. They were predominantly from Mexico. Very few of them had finished high school. And so we wouldn't expect to see a burst of innovation from that

population. And I don't think you would expect to see a burst of innovation from legalizing most of the 11-plus-million unauthorized here in the U.S.

Where you are going to get those big innovation gains, and the business creation is the high-skilled.

Chairman Brady. Got it. That makes sense.

Dr. Camarota.

Dr. Camarota. Yes. Very briefly, the research shows that they benefitted from the legalization. Their wages may immediately have gone up about 5 percent. But since two-thirds, three-fourths did not have a high school education, they were not a source of a lot of business startups, and so forth. They did do better—unfortunately, when we look at them, they do have very high poverty rates today, but maybe they would be even higher still if they stayed illegal; very high use of welfare. More than half of those households headed by those immigrants access one of the major welfare programs, as far as we can tell. So very high rates of welfare use.

But it probably did make their lives better, even if maybe it didn't make the lives of American taxpayers better.

Chairman Brady. Thank you very much.

Representative Delaney.

Representative Delaney. Thank you, Mr. Chairman, and thank you to our two speakers here today for their remarks.

I have two questions. One is a more general question, but I will start with the specific question to Dr. Camarota.

Your analysis seemed to be, when you talked about who benefits from immigration and you compared the benefits that accrue to the immigrants versus the benefits that accrue to the non-immigrant population, it seemed to be somewhat of a static generational analysis in that you are looking at a snapshot in time.

For example, you said more than 50 percent—I couldn't remember if you said housekeepers or people who work in hotels were immigrants but only 7 percent were attorneys—when you make this a more intergenerational analysis and you look at the effect of immigrants on the society across more than the immigrant population, but including their children, how does that change the way you think about how benefits accrue to immigration?

Because it is hard, it seems to me, to think about this in the tight timeframe of a single generation, and that you need more of an intergenerational analysis in terms of thinking about where benefits accrue. I'll give you a minute or so to answer that, and then I will go to my second question.

Dr. Camarota. It is a great question. Obviously no one knows how the children of today's immigrants are going to do. All we can kind of do is look at the past and say.

When we look at that, we find that the children whose parents were relatively educated, those kids have done pretty well.

But about 31 percent of all children born to immigrants today are born to a mother who has not graduated high school. Those kids, as far as we can tell, are really going to struggle. And that does describe a large fraction of the illegal population.

So if we look at second- and third-generation of people as far as we can tell whose parents did not have a lot of education, a lot of those folks struggle. Some don't. But——

Representative Delaney. Do they struggle more or less than non-immigrant populations solving for the same fact set?

Dr. Camarota. Yes, I was going to say that they are better off clearly than their parents in terms of high school completion and general income. But they lag grossly behind the general native-born population.

Representative Delaney. I think, Doctor, you wanted to comment on that, real quickly? It seemed like you wanted to.

Dr. Zavodny. I would disagree. I think the evidence shows quite clearly that the second generation of the children of immigrants tend to do not only better than their parents, but better than the children of similarly poorly off natives.

Representative Delaney. Which was my point. Which is, I think, to think about the relative benefits that accrue we should not think about it in the snapshot of the current generation. I am sure the data does—or I am assuming the data you are putting forth, Doctor, that it accrues more to the immigrants than it does to the general population, that that changes when you do an intergenerational analysis, which is how I think we have to think about this.

My second question is—and this is a more broad, conceptual question. We have all heard the data, that half of the Fortune 500 was founded by immigrants or children of immigrants. I think, Doctor, you spoke about what is happening in the technology industry, and the statistic that always strikes me is that something like 70 or 80 percent of venture-capital backed companies in technology that become public companies are founded by immigrants. It is a staggering, overwhelming statistic.

And one of the things, it seems to me, that has been a great, obviously, virtue to this country is that across time the overwhelming majority of the world's population have wanted to come here. So if we have 7 billion people, I don't know, 5 or 6 billion of them wake up every day and would love to come to the United States if they could, that is a benefit that is hard to measure.

We can measure a whole variety of things, even in the immigration analysis. You know, the data is important. I have always said, "Unless you're God, bring data." And the data is really good on a lot of the immigration stuff. But this factor to me seems hard to measure, which is the intangible benefit to this country to be singular in terms of the destination that everyone wants to go to.

How relevant is that, in your judgment? Because it seems to me if we don't act on immigration soon in the context of a global and technology-enabled world, in the context of lots and lots of cities prospering around the world that could become magnets for the top people in the world, how do you worry about damaging that asset as it relates to our competitiveness as a country and our economic prosperity?

Dr. Zavodny. So I think it's already happening; that we see that high-tech entrepreneurs and skilled workers are going to Canada. They're going to England. They're going to India. They're going to China. Or staying in those countries instead of coming to the United States because our immigration policy is such an absolute mess.

And so we are forfeiting lots of gains that will matter tremendously not only today but in the future.

Dr. Camarota. When we look at the total immigrant population, as you are probably aware, as far as we can tell the entrepreneurship rates are about the same: 12 percent of natives are self-employed; 12 percent of immigrants. But there is huge variation in the immigrant population; 26 percent of Korean immigrants have a business, but there are other immigrant groups where it is about 3 or 4 percent.

So overall it does not look like immigration is a particular source of entrepreneurship as a group. However, highly skilled immigrants and immigrants from some sending regions do seem to have very high rates; it is just offset by the lower-skilled in the other regions. So it is about the same.

It is not a unique characteristic of immigrants, but nor is it lacking among immigrants.

Representative Delaney. Thank you.

Chairman Brady. Thank you.

Representative Hanna.

Representative Hanna. Thank you. Thank you both for being here.

I have been reading both of your testimonies. There is a very common, clear theme. That is, that—to me, and argue if I'm mistaken—but that there is high value added to a society that immigrants move to in order to higher their education. I don't know if it's direct or not, but from a −$89,000 with below-a-high-school education, to a $105,000-plus with someone with much higher, a Masters or a Doctorate, to the point where, Ms. Zavodny, you said that we should give citizenship or visas to virtually everyone who has a job offer in this country because there's so much value added there.

And you suggest also that it should be tied to the business cycle; that we should adjust immigration based on our own demand. And I want to ask you about—and the Chairman mentioned also our policy of having people come in who have family ties, and basing immigration somewhat on that. I mean, it is clearly true that people with higher educations also have family ties. We can fill that need.

Can you, either one or both, give me some idea of what a policy would look like that was both fair and reasonable to people who want to come here, and this country's need over time that somehow is dynamic because of our business cycle, what an efficient bill that served this country would look like?

Dr. Camarota. Well, you know, I mean the labor market is still not doing very well, as we know. We have a jobs' deficit of about 9 or 10 million right now, if we got back to the employment rates of the past.

In the next decade we will need, just for natural population growth, about 9 or 10 million more jobs. That is about 20 million. This bill contemplates about 15 million new workers—20 million overall, but about 15 million new workers.

So what I would say is, the next decade better be the greatest jobs bonanza in American history or we are going to see a continu-

ation of a decline in work. And that is very troubling, especially among the young. So we have to think long and hard about that.

If you want what I think is more sensible it would be to look at what the Jordan Commission suggested in the 1990s. Barbara Jordan headed a commission in the 1990s that basically said we should try to curtail family-based immigration and put more emphasis on skills.

Representative Hanna. Could I interrupt you, quickly? You mention in your paper that I read with great interest that all of the employment gains have gone to immigrant workers. This is extremely puzzling since the native-born workers account for about two-thirds of the growth in working age population. Yet you offer no kind of—you offer a question, but not an answer.

Dr. Camarota. Yes, it is striking. It is, as I said, the idea that all—what you're referring to is this idea that it looks like there are about 5 million more immigrants working than there were in 2000, and the number of natives working is down by about 1 million. So it looks like what net gain there was in employment all went to the immigrants. That is certainly very consistent with the possibility that immigrants displace natives in the labor market.

But by itself, it isn't proof that that happened. What it does show is that you can have large-scale immigration.

Remember, the last 13 years, the latest Census data show, 16 million new immigrants settled in the United States. And we have had very little job growth.

So large-scale immigration does not necessarily coincide with large-scale job growth. And we just have a system that runs on auto-pilot. Maybe that is one of the biggest messages to take on that. Maybe we need to constantly be recalibrating it based on that.

Representative Hanna. Dr. Zavodny.

Dr. Zavodny. I think as an economy, as policymakers you have to make a choice, and we as a country have to make a choice about how we are going to admit people, since we are not going to have open borders.

And so fundamentally it comes down to a choice between family ties or employment. And if the priority is economic growth, and these days it really does need to be, then there needs to be greater emphasis on the employment side at least for now instead of on the family ties. Because we know that immigrants who come in under family ties have lower skill levels, lower employment rates, lower tax contributions, than those who are coming in on the basis of having a job offer.

So it is not that everyone who gets a job offer should be admitted. It is that to be able to come in maybe you should have a job offer.

Representative Hanna. Thank you. I yield back.

Chairman Brady. Representative Paulsen.

Representative Paulsen. Thank you, Mr. Chairman.

Dr. Zavodny, I was just going to note that at the end of your testimony, just to follow up on this, you mentioned and talked about short-term migration instead of permanent residency. And you said, creating a program that allows immigrants who remain employed in the U.S. for a certain period while on a temporary visa

to opt to adjust to permanent residence would be better than granting permanent residence to many immigrants from the outset.

Can you just maybe expand a little bit more about that? I mean, what would some of the benefits be just from an economic standpoint of looking at the issue in that context?

Dr. Zavodny. So the concern is that if people come, and in particular if they are not admitted because they already have a job offer from a U.S. employer, how valuable are they going to be in the U.S. labor market in terms of will they have the skills that employers need? Will there be a good match between them and employers?

And so there is no way for a bureaucrat to tell this. There is no way for a point system really to tell this. It is up to the employer to know whether or not an immigrant looks like he or she is going to be a good match.

So when you grant permanent residents the right to live here forever in essence unless you commit a felony, from the outset without knowing how well someone is going to adapt here and how much they are going to contribute as a citizen, as a taxpayer to the economy and so on, perhaps the U.S.—the U.S. is unusually generous in how much permanent residents it gives. We are an enormous outlier worldwide in terms of the generosity of our immigration policy.

It is something to be proud of. But on the other hand, it is not prioritizing economic growth.

Representative Paulsen. My understanding—and I don't know if I missed this at the beginning when the Chairman was asking questions—but Canada is testing a pilot program right now that would make available immediate permanent residency to anyone who gets sponsored by a Canadian venture capital firm, or an angel investor. And it would seem that their target market there is obviously IT specialists in STEM fields. Maybe those in the United States that have only a limited amount of time to stay here on a temporary work visa.

But can you give your thoughts on that program, if a similar program could work in the U.S.? Again, that is permanent residency right away.

Dr. Zavodny. So I think there are some groups to whom you would want to give permanent residency right away, and that would be those with extraordinary ability. Say Ph.D. holders, STEM graduates of U.S. colleges and universities, workers like that.

But to grant it almost across the board to a million, over a million people a year is unbelievably generous.

Representative Paulsen. And do you have a sense? Is there any brain drain going on right now within the United States, either among natives or immigrants just because of our policies here, or the attraction that might exist in some of these programs with other countries?

Dr. Zavodny. I think Vivek Wadhwa is the biggest expert on this, and what his research shows is that we are seeing a brain drain of people who come here and leave, both immigrants and some U.S. natives, going in particular to China and India which have experienced booming economic growth and significant oppor-

tunities, particularly in the high-tech sector, and that our immigration policy is certainly not helping us here; it is hindering us.

Representative Paulsen. Thank you, Mr. Chairman. I yield back.

Chairman Brady. Thank you. Since we have you here, I would like to do a lightening round, three-minute questions for the Members who would like to ask them. What I appreciate is that, although this is a very highly charged issue, I appreciate that we are going about it in a very thoughtful, constructive, respectful way. I think that is the way this issue ought to be discussed in Washington.

To follow up with Representative Paulsen's question, we have honest differences about the issues of granting short-term migration, some type of legal status, whether it is a guest worker or longer term versus citizenship. And there are different views.

From an economic standpoint, is there a demonstrably higher economic benefit for citizenship granted immediately to a group of people?

Conversely, is there a markedly lower economic benefit that results from either a legal status through a guest worker program, or another type of card?

Your insights there?

Dr. Camarota. Let me say this about guest worker programs, because they look attractive, right? You get the person when you need it, and supposedly they leave when you don't, and you won't have to maybe pay for so much. You won't make them eligible for welfare and other programs. It looks attractive.

But I would point out that every industrial society that has tried to do it, it never works at least in this sense: whether it's Pakistanis in Britain, North Africans in France, Turks in Germany, or America's old Bacerra Program, it always resulted in long-term permanent settlement.

So if we are going to sell it to the public as a guest worker program, knowing that a large fraction are going to want to stay permanently, will over-stay their visas, there will be pressure to do that, maybe we should just not have it as a guest worker program even though there were those attractive reasons to do it. Because people are not "things." Right? They're not just ingots of steel, and factors of production. A very large fraction are going to want to stay, and we know that right now. We do. And so maybe we should take that into account first.

Chairman Brady. Well I'm not sure that's the case. If you look at Australia and New Zealand, the Middle East, that rely on guest workers who do not have a skilled work force in the native side of it.

But be that as it may, Dr. Zavodny, economically is there evidence on short-term guest worker versus citizenship, for example, that we ought to be aware of?

Dr. Zavodny. I think the most important thing to be aware of is that our current guest worker programs, particularly on the low-skill side, are not working very well.

Chairman Brady. They are unworkable.

Dr. Zavodny. There is so much red tape. Employers do not want to go through them. It is much easier to go to your local day labor

site, or the street corner, and just grab guys or gals off of it to work for you for the day under the table. And this is unworkable in the long run. It violates the rule of law to have this going on and to have such a big, unauthorized population.

So I think it is better to try to channel that legally through a temporary worker program. But as Dr. Camarota points out, you have to think very carefully because there is nothing as permanent as a temporary guest worker.

Chairman Brady. Is there economic evidence differentiating legal status versus citizenship that you're aware of?

Dr. Zavodny. So I think Dr. Kugler talked a little bit about this yesterday, and Dr. Camarota referenced it briefly, the evidence indicates that there are small income gains—I would say 6 to 13 percent—when people are able to legalize their status, as happened after IRCA.

There's also, it looks like, a small income gain from acquiring U.S. citizenship. But it may just be that people who have the most to gain from becoming a citizen "say they want to work for the U.S. Government" are the ones who take the test.

Chairman Brady. Thank you, very much.

Madam Vice Chair, we were just starting a second round and I would yield to you.

Vice Chair Klobuchar [presiding]. Well thank you very much, Mr. Chairman. Thank you. The votes are done. Very exciting.

I thought I would ask a follow-up on something that we discussed yesterday with Mr. Norquist, and that was the Republican economist and former CBO Director Douglas Holtz-Eakin testified before the Judiciary Committee in the Senate that immigration reform would reduce the deficit by $2.7 trillion over 10 years. That is mostly because of the productivity of workers. It is because there are workers now who are working but not paying taxes, and they would have to pay taxes. And it is also just the general innovation economy that has come from the immigration in the past.

Can you talk about how you think this could affect the federal budget, Dr. Zavodny?

Dr. Zavodny. So there are dynamic gains from a bill like the Gang of Eight's bill, and there are some dynamic gains that would occur just from the legalization portion, although those are smaller than the gains that would occur from what will happen on the high-skill side if a bill like the Gang of Eight's bill passes.

So in terms of the fiscal effect, there will be revenue gains particularly in the 10-year window that the CBO uses for scoring. Because the way that the current bill is set up is that unauthorized immigrants would be in a registered provisional status for 10 years, and then able to naturalize after 3 more years. So 13 years out.

So that is part of why the fiscal gains look positive.

Vice Chair Klobuchar. Okay. And then I had a second question on the I–Squared bill that Senator Hatch and I introduced with Senator Coons and Rubio, and as you know it would increase the cap on the H–1B visas and make it easier for people who get degrees in science, engineering, and technology, and math to stay.

Most of the provisions were included in the Gang of Eight bill. Senator Hatch and I have an important amendment that we are

going to be putting up that he is leading, and I'm the Democratic lead on, to actually take some of the money and put a little extra fee on the visas, and have that go directly to STEM education for American students.

That was in our original bill that did not get included. Could you talk about how these skills are important, both with immigrants and native-born kids to learn these skills and contribute to our economy?

Dr. Zavodny. Sure. It is incredibly important. My research shows that the biggest gains for natives in terms of their employment when immigrants come are from immigrants who are highly educated and working in STEM.

So if you want the biggest bang for the buck on admitting immigrants, you want those to be highly skilled immigrants, highly educated, who work in STEM. But it is very important that we also train the U.S.-born population in STEM. I see this every day with my students, that their math skills are not what they should be.

And I would also point out, it is really sad that one of the pieces of advice I give my foreign-born students is: Marry a U.S. citizen so you can stay. And that is sad. They should be able to stay. They are wonderful women who are going to make a huge contribution to the U.S. economy.

Vice Chair Klobuchar. I also heard from a daily reporter for one of our university papers, just a college kid who interviewed me about this, and she said that a number of the students would tell her off the record that they want to stay, but they could not even say that on the record because of the dual-intent issue. When they are students, they cannot act like they want to stay. And that was a pretty shocking thing to hear.

I am out of time. Dr. Camarota, I will just get your written answers to those two questions, if that is okay, because there are other members who have been here. So I appreciate you being here. Thank you.

[The information referred to was not available at the time of publication.]

Chairman Brady. Representative Hanna.

Representative Hanna. There is a common assumption somehow that immigrant workers—let me back up—both of you would suggest somehow that there is almost unlimited elasticity to the high end, but limited demand at the lower end educationally and in terms of the type of work, the nature of the work.

I live in a highly agricultural community. We depend on migrant workers a lot. Dairy isn't part of the H–2A program. That has always been a problem. Dairy needs long-term help.

You mentioned that it isn't true, Dr. Camarota, that the work that is available is work that Americans don't want. You mentioned 472 civilian type jobs. And then you move on to say there are only 6—I mean, that does not confirm anything, as I understand it.

I wonder if you could, without an opinion from me about it, I wonder if you could elaborate.

Dr. Camarota. Sure. What you are pointing to is this idea, look, in fact just about every job you care to name in America, the majority of workers are U.S.-born, whether it is construction labor, whether it is nannies, maids, busboys, in some cases, you know,

three-fourths of janitors or something like that are U.S.-born. And so that may not comport.

But you have to remember that in the cities it is different than in the countryside. And it is very different in downstate New York than in upstate New York. So that is part of what you're seeing there.

But what that does tell us is the idea that there are jobs Americans don't do of course is foolish and silly. So two-thirds of people who work in meat and poultry processing are U.S.-born. So obviously that is a job Americans do, and it does not make sense.

The other question that this sort of relates to is the precipitous decline in wages in that sector. Meat and poultry processing, while still majority-U.S.-born, real wages have declined 45 percent in that sector since 1980. Those same employers then come before this Congress and say, gosh, we can't find anybody to cut up dead animals, because it is nasty work, we all agree.

But maybe because they pay half what they used to. One of the things I would make the case is, since Americans do most of this work, and we have all these unskilled Americans who are now not working sort of at a record level, let's try to get them back into the labor market.

Bringing in new immigrant workers would benefit the immigrants, and some of those workers are probably very good workers, but this huge growth in nonwork among our young and less educated has huge sociological implications.

Just briefly, if you don't work when you're young, the chance that you will work as you get older goes way down, and you make less, and that is especially true for those who do not go to college, which is about half of our kids.

Representative Hanna. Thank you. I yield back.

Vice Chair Klobuchar. We have Representative Delaney.

Representative Delaney. I just think this notion of thinking about that the country has too many young and poorly educated people, and they can't compete for decent jobs with good standards of living, I'm just still not sure how relevant that is to the immigration debate. Because that is a problem in and of itself, a structural problem that needs very specific solutions.

And I am not sure how immigration is the most effective way to deal with that problem. But my question is more about wondering whether we are still thinking about the immigration debate in a backward-looking way as opposed to a forward-looking way. Because I think when we think about the singular advantage that this country has in terms of attracting talented people to come here and create businesses, which all the statistics we've seen about what immigrants have done, I worry deeply actually that one of the great things that has happened in the world is the rest of the world has become much more like the United States.

The United States has historically been a country, I think the hundred largest urban areas in this country are the hundred largest cities in this country, were two-thirds of our economy. So it is very different in the rest of the world.

I think in China 20 percent of their population, or 20 percent of their economy was in a city in 1980, and now it is 60 percent. And what that implies is the growth of all these urban global cities. And

I think there are 500 global cities that comprise 70 percent of the global economy. And that is very different than what it was 20 or 30 years ago, and therefore our competition is very different.

It just seems to me we come to the immigration debate with a somewhat outdated notion that we have lots and lots of time to fix this. And when we get around to fixing this, people will still want to come here with the same kind of supply and demand imbalance that has always existed.

And I just wonder, do you think that we are calculating that into our analysis of this sufficiently? I will start with you, Dr. Zavodny.

Dr. Zavodny. I think you are absolutely right, that it is impossible for any of us to anticipate what will happen in the future and what the future needs of employers of the U.S. economy are going to be, and the world is becoming increasingly globalized and more and more competitive every single day. And the United States needs to be ready.

We should be glad the rest of the world is becoming more like us——

Representative Delaney. Absolutely.

Dr. Zavodny [continuing]. But on the other hand, it means we need to keep going and progressing. We need to improve our educational systems, and we need to fix immigration policy right now.

But I think it would be very hard for the government to pick and choose exactly or a commission to pick and choose who to admit, and who is best going to contribute to the economy going forward. That is very, very hard to know when you set up a point system, or something like that.

Dr. Camarota. Well so far we have never had that trouble, you know, when the economy is down, of attracting people. In the last four years, 2008–2012, a net decline in jobs, significantly, 5 million green cards were given out. We still apprehended well over, in total, about 2 million people at our border, well over a million more people came on temporary long-term visas.

As far as we can tell, the desire to come to the United States remains vast. It could always change, but it seems likely, given wage differentials and other freedoms in the United States, the quality of our public services, that that is going to persist for a very long time indeed.

Vice Chair Klobuchar. Senator Coats.

Senator Coats. Well, Madam Chairman, thank you. I am obviously very late and delinquent in getting here in time. I do want you to know I read both your testimonies. I appreciate very much the contributions that you have made to our thinking on how to go forward with this, and particularly the differentiation between the less skilled and the more skilled.

Obviously we don't want to be a country that simply gives a test and the highest ranking on the test results are the ones we admit. On the other hand, you make, I think, compelling cases for a better understanding of where our needs are and how we address those needs.

Clearly the technical skills, the skills that many of our businesses now are asking for that require levels of education and levels of training that in the past were not as necessary are important, that we adjust our quotas appropriately. On the other hand,

I think there still is room in this country—there certainly is in my State—for people starting at a lower rung of the ladder and having the opportunity through that start to move up, particularly following generations.

The story of America is immigrants coming and working below their skills but with a goal of opening the door for their children in following generations to gain the education, and gain the skills necessary to make measurable contributions to America.

So I am wondering, I guess my only question to you is could each of you reflect on what I have said? And I apologize if you have already discussed that, but particularly that sort of two-tier thought process concerning what we need to grow our economy, where we want to be open to the level of immigration that brings people at the lower skills level, but gives them that opportunity to move forward.

Let me just give you one example. We do a lot of processing in our State. And that is not a desired business for many people. And my employers there have said it is almost impossible—even though we have unemployment problems—almost impossible to hire Americans to do some of these jobs. And yet, people that come from other countries are better able to handle the truly difficult work of some of the processing that takes place. And without them, they are in a quandary.

So that is just one example. But I hear that from a number of people, and I wonder if either one of you could comment on that.

Dr. Zavodny. So my inlaws live in Greencastle, Indiana, so I see that there absolutely, a lot of processing jobs. And so I think that the way to think about employers and the economy's need for low-skilled immigrants, it exists I believe, and the best way to maximize the economic contributions of low-skill immigrants I think is to primarily admit them when they have a job offer from a U.S. employer, instead of on the basis of family ties.

And then, returning to an earlier question, to give them sort of a provisional pathway toward getting to remain here permanently; that they can come if they have a job offer, and perhaps we have a certain number of those job offers that can be made every year in aggregate; and then, if they stay here, pay taxes, contribute, after a certain number of years then they can apply for permanent residence and get it and bring in their family members and so on.

And so I think that would be a way to maximize the economic contribution, while also allowing employers to hire the workers that they need.

Dr. Camarota. Well I would say, as you probably know we have a record number of people not working who are less educated, right now. If you look at people who have no education beyond high school and are 18 to 65, we have about 27 million American citizens not working—5, 6 million more than we had just a few years ago.

Real wages for those workers are down 10 to 22 percent in inflation-adjusted terms, and I don't know if you were here before but we talked about meat and poultry processing where real wages are down 45 percent since 1980. And relative to more educated workers, they are down even more.

In other words, the relative wage decline is even more dramatic. If you have a super abundance of less-educated people, and if you find real wage decline decade after decade, it is very hard to say that we have a shortage.

What it looks more like is employers are just used to paying much lower than they used to. They like that, and they would like to have Congress keep the flow coming, whether it is guest workers, or have a relaxed immigration system. But I would say that if we don't get the less-educated, all these young people who do not go on to college who are not working right now, back into the labor market, the consequences of that moving forward will be enormous. Because we know that if you do not work when you are young, say between 16 and 24, and you do not go on to college, the chance of you working later in life is much less. You earn less. You just do not learn the skills necessary to function in the labor market.

And that sociological phenomenon is very troubling.

Senator Coats. Thank you, Madam Chairman. I am over my time already. Thank you.

Vice Chair Klobuchar. Well thank you very much, Senator. Thank you to our witnesses today. This has been a very good discussion, a bifurcated two-day hearing, and we have been really pleased with how it's gone and the number of people who have come. We really appreciate your testimony, and we look forward to working with our colleagues in the House, as well as in the Senate, on both sides of the aisle as we move forward with this very important issue of immigration.

I don't know if you wanted to add anything, Mr. Chairman?

Chairman Brady. No, thank you.

Vice Chair Klobuchar. All right, well thank you very much and the hearing is adjourned.

(Whereupon, at 2:55 p.m., Wednesday, May 8, 2013, the hearing was adjourned.)

SUBMISSIONS FOR THE RECORD

PREPARED STATEMENT OF HON. KEVIN BRADY, CHAIRMAN, JOINT ECONOMIC COMMITTEE

I want to thank Vice Chair Klobuchar for choosing this important hearing topic that will be explored in a Joint Economic Committee hearing today and tomorrow.

Given the growth gap which America is experiencing—in which the current historically weak economic recovery translates into 100,000 fewer new jobs per month and workers realizing only a mere fraction of the increase in real disposable income during an average recovery —it is important that the Joint Economic Committee carefully and objectively examine the economic and fiscal effects of our current immigration system and proposed reforms.

If we wish to remain the world's largest economy through the 21st century, the economic objective of any immigration reform must be to maximize potential economic benefits for the nation while minimizing costs to hardworking American taxpayers.

My belief is that we must close the back door of illegal immigration so that we can keep open the front door of legal immigration. My frustration through the years of this politically charged debate is that Congress and the White House have failed to agree on a most basic question: What kind of workforce does America need to remain the strongest economy in the world, and what steps do we need to take to ensure we have that 21st century workforce?

There's little doubt the front door of legal immigration is—by all measurable standards—broken. Talented individuals with advanced education, unique skills, and wealth that could be invested here to create new, high-paying jobs for American workers have been excluded or have waited years—even decades—09 to immigrate legally. And the current visa program for low-skilled workers is essentially unworkable.

Recognizing that other committees have jurisdiction over immigration reform issues such as border security, employer verification, and paths to legal status, the Joint Economic Committee will concentrate on its principal function, which is to provide Congress with analysis and advice on economic issues.

To that end, from our witnesses, I am seeking answers to these questions:

- What kind of workforce does America need to remain the strongest economy in the world, and what steps do we need to take to ensure we have a 21st century workforce?
- In addition to developing more trained American workers, who should we encourage to immigrate to the United States and what should be our priorities? What criteria should we use to evaluate potential immigrants?
- Are immigrants entering the United States under our current immigrant system a net economic benefit or a net cost to the U.S. economy in the long term? What are the benefits and the costs?
- What changes would you make to our current immigration system to maximize the net economic benefits to the U.S. economy, the federal treasury, and the treasuries of state and local governments? How does the bill currently before the Senate Judiciary Committee affect economic growth in the short and long term, including its effects on wages, real GDP per capita, job prospects for Americans, and our long-term global competitiveness?
- As America continues to struggle with historically high budget deficits, are the immigrants entering the United States under our current immigration system a net fiscal benefit or a net fiscal cost to the federal taxpayers and to state and local taxpayers in the long term? How do the taxes that immigrants pay compare with the taxpayer-funded benefits that they receive? And what is the impact of the immigration reform proposal currently before the Senate?
- Finally, what can we learn from the immigration systems in our global competitors such as Australia, Canada, and New Zealand that admit large numbers of immigrants relative to the size of their native-born population?

Just as we need pro-growth tax reform, a rebalancing of burdensome regulations, a sound dollar and a federal government credibly addressing its long term entitlement challenges, America needs a trained, mobile and flexible workforce that meets the needs of a 21st century economy.

I welcome our witnesses and look forward to their insight as we explore the economic effects of immigration reform.

Testimony before the Joint Economic Committee
Immigration and Its Contribution to Our Economic Strength

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May 8, 2013

The views expressed in this testimony are those of the author alone and do not reflect those of Agnes Scott College or the American Enterprise Institute

Chairman Brady, Vice Chair Klobuchar, and Members of the Committee, thank you for inviting me to appear here today to discuss the economics of immigration. In the testimony that follows, I will first discuss the contributions that immigrants make to the economy and their fiscal impact. I will then discuss how immigration policy can best be reformed to maximize those contributions.

Immigrants' contributions to the economy

A growing economy attracts immigrants, and immigration, in turn, makes the economy grow. Immigrants contribute to the economy as workers, as consumers, and as taxpayers. Immigrants fill vital niches in the labor market; they go where the jobs are; they contribute to innovation and business creation; they revitalize declining areas; and they slow the aging of the American workforce.

First, immigration increases the labor force, which makes the economy bigger. Foreign-born workers comprise about 16 percent of the workforce, and immigrants account for nearly one-half of U.S. labor force growth since the mid-1990s.

Although immigrants are an important source of labor force growth, their contribution to U.S. natives' national income, or gross domestic product (GDP), is actually relatively small. Most of the income gains from immigration accrue to immigrants themselves. The net gain to U.S. natives—what economists call the "immigration surplus"—is typically estimated at less than 0.5 percent of U.S. GDP annually.[1] However, this calculation misses a number of the economic gains from immigration, including its effects on specialization, innovation, and business creation.

One of the economic gains of having a larger workforce as a result of immigration is that it leads to greater specialization. When there are more workers, people are more likely to work in jobs for which they are better suited, or in economic terms, in jobs that are their comparative advantage. This raises productivity and increases economic efficiency. Immigration in particular increases specialization because immigrants tend to have different skills than U.S.-born workers. The bigger these differences, the bigger the economic gains from immigration. This is a crucial point--the U.S. economy benefits the most from immigrants who are the most *un*like the people already here.

Immigrants indeed tend to be quite different than U.S. natives. Differences in education levels illustrate this. Only about 5 percent of U.S.-born workers aged 25 and older have not completed high school versus over one-quarter of immigrants.[2] In addition, immigrants are almost twice as likely as U.S.-born workers to have a Ph.D. U.S. natives, in turn, are more likely than immigrants to have completed high school or to have attended college. Immigrants are far more likely than U.S. natives to be at the extremes of the education distribution, which increases the economic gains from immigration.

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[1] U.S. Council of Economic Advisers, "Immigration's Economic Impact" (2007), available at http://georgewbush-whitehouse.archives.gov/cea/cea_immigration_062007.html (accessed April 26, 2013).

[2] This testimony uses "immigrant" to encompass all foreign born who are not U.S. citizens at birth, not just legal permanent residents. Calculations based on the 2011 American Community Survey using data based on Steven Ruggles, J. Trent Alexander, Katie Genadek, Ronald Goeken, Matthew B. Schroeder, and Matthew Sobek, *Integrated Public Use Microdata Series: Version 5.0* [Machine-readable database]. Minneapolis: University of Minnesota, 2010.

American workers' comparative advantage is in jobs that emphasize interactive, communications, and managerial skills, in large part because of their fluency in English. At the low end of the labor market, immigrants have a comparative advantage in jobs that involve manual labor while at the high end of the labor market immigrants have a comparative advantage in jobs that require quantitative and analytical skills. Research shows that immigration has enabled U.S.-born workers to move into jobs that are their comparative advantages at both the highest and the lowest ends of the labor market.[3] This cushions any adverse labor market effect of immigration on competing U.S. workers.

Whether and to what extent immigration adversely affects competing U.S. workers are some of the most hotly contested questions in economics. Basic economic theory predicts that an increase in the number of workers as a result of immigration reduces employment and earnings among competing U.S. workers. However, a growing body of economic research indicates that this is not necessarily the case even in the relatively short run, particularly for workers who have at least completed high school.[4] For example, my research for the American Enterprise Institute and the Partnership for a New American Economy concludes that immigration overall does not have any adverse effect on employment among U.S. natives, and highly educated immigrants actually have a positive effect on natives' employment.[5]

However, earlier immigrants do experience sizable adverse labor market effects from immigration. This is not a surprise since immigrants are far more substitutable for other immigrants than they are for U.S. natives.

One of the most important economic contributions immigrants make is to innovation, which raises productivity growth. Sustained increases in productivity lead to faster economic growth and rising living standards. Recent research provides compelling evidence that high-skilled

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[3] Giovanni Peri and Chad Sparber, "Task Specialization, Immigration, and Wages," *American Economic Journal: Applied Economics* 1(2009): 135-169; Giovanni Peri and Chad Sparber, "Highly Educated Immigrants and Native Occupational Choice," *Industrial Relations* 50 (2011): 385-411.

[4] Studies that find little evidence of significant adverse effects of immigration on natives' labor market outcomes include David Card, "Immigrant Inflows, Native Outflows, and the Local Labor Market Impacts of Higher Immigration," *Journal of Labor Economics* 19 (2001): 22–64; David Card, "Is the New Immigration Really So Bad?" *Economic Journal* 115 (2005): F300–F323; Gianmarco I.P. Ottaviano and Giovanni Peri, "Rethinking the Effect of Immigration on Wages," *Journal of the European Economic Association* 10 (2012): 152-197; Pia M. Orrenius and Madeline Zavodny, "Does Immigration Affect Wages? A Look at Occupation-Level Evidence," *Labour Economics* 14 (2007): 757–773; Heidi Shierholz, "Immigration and Wages: Methodological Advancements Confirm Modest Gains for Native Workers," Economic Policy Institute (2010), available at http://www.epi.org/publication/bp255/ (accessed April 29, 2013). Studies that find negative effects of immigration on natives' labor market outcomes include George J. Borjas, "The Labor Demand Curve Is Downward Sloping: Reexamining the Impact of Immigration on the Labor Market," *Quarterly Journal of Economics* 118 (2003): 1335-1374; George J. Borjas, Richard B. Freeman, Lawrence F. Katz, "How Much Do Immigration and Trade Affect Labor Market Outcomes?" *Brookings Papers on Economic Activity* 1 (1997): 1-90; George J. Borjas, Jeffrey Grogger, and Gordon H. Hanson, "Immigration and African-American Employment Opportunities: The Response of Wages, Employment, and Incarceration to Labor Supply Shocks," National Bureau of Economic Research working paper no. 12518 (2006).

[5] Madeline Zavodny, "Immigration and American Jobs," American Enterprise Institute and the Partnership for a New American Economy (2011), available at http://www.renewoureconomy.org/neweconomy (accessed May 2, 2013).

immigrants play an important role in innovation.[6] Highly educated immigrants earn patents at more than twice the rate of highly educated natives. The difference has been linked to immigrants' overrepresentation in STEM fields and to the growing number of immigrants entering on work-related and student visas. There is also evidence of positive spillovers on natives, meaning that immigrants not only raise innovation directly but also boost overall patent activity, perhaps by attracting additional resources and boosting specialization. Immigrants' innovative activities benefit all Americans, natives and immigrants alike.

Another important economic contribution immigrants make is that they create businesses at higher rates than do U.S. natives.[7] This contribution is most notable in the high-tech sector, where immigrants were key founders in one-quarter of U.S. high-tech startups between 1995 and 2005.[8] Immigrants were key founders in over one-half of high-tech startups in Silicon Valley during that period. Like their innovative activities, immigrants' entrepreneurial activities benefit all Americans.

Low-skilled immigrants' economic contributions are less obvious than those of high-skilled immigrants, but low-skilled immigrants contribute to the economy in several key ways. They fill dirty, dangerous, and dull jobs that many U.S.-born workers are reluctant to take. Low-skilled immigration reduces the prices of the goods and services these workers produce, which benefits all Americans as consumers.[9] In addition, the availability of low-skilled immigrant workers as child care providers, housecleaners, and gardeners has enabled American women to work more and allowed them to pursue careers while having children.[10] These benefits have accrued primarily to highly educated women who are in a position to pay for household help.

Another important economic contribution of immigrants, both high- and low-skilled, is that they tend to go where the jobs are.[11] This mobility promotes continued growth in booming areas that

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[6] Gnanaraj Chellaraj, Keith E. Maskus, and Aaditya Mattoo. "The Contribution of International Graduate Students to U.S. Innovation," *Review of International Economics* 16 (2008): 444–62; Jennifer Hunt. "Which Immigrants Are Most Innovative and Entrepreneurial? Distinctions by Entry Visa," *Journal of Labor Economics* 29 (2011): 417-457; Jennifer Hunt and Marjolaine Gauthier-Loiselle. "How Much Does Immigration Boost Innovation?" *American Economic Journal: Macroeconomics* 2 (2010) 31–56; William R. Kerr and William F. Lincoln. "The Supply Side of Innovation: H-1B Visa Reforms and U.S. Ethnic Invention," *Journal of Labor Economics* 28 (2010): 473-508.

[7] Business formation rates are more than twice as high among immigrants as among U.S. natives, and the business ownership rate is slightly higher among immigrants than among U.S. natives. Robert W. Fairlie, "Immigrant Entrepreneurs and Small Business Owners, and their Access to Financial Capital," Small Business Administration (2012), available at www.sba.gov/sites/default/files/rs396tot.pdf (accessed May 2, 2013).

[8] Vivek Wadhwa, AnnaLee Saxenian, Ben Rissing, and Gary Gereffi, "America's New Immigrant Entrepreneurs," Duke Science, Technology and Innovation Paper no. 23 (2007), available at http://people.ischool.berkeley.edu/~anno/Papers/Americas_new_immigrant_entrepreneurs_I.pdf (accessed May 2, 2013).

[9] Patricia Cortés, "The Effect of Low-Skilled Immigration on U.S. Prices: Evidence from CPI Data," *Journal of Political Economy* 116 (2008): 381-422.

[10] Patricia Cortés and José Tessada, "Low-Skilled Immigration and the Labor Supply of Highly Skilled Women," *American Economic Journal: Applied Economics* 3 (2011): 88-123; Delia Furtado and Heinrich Hock, "Low Skilled Immigration and Work-Fertility Tradeoffs Among High Schooled US Natives," *American Economic Review: Papers & Proceedings* 100 (2010): 224-228.

[11] Pia M. Orrenius and Madeline Zavodny, ""Immigration and Growth," *The 4% Solution: Unleashing the Economic Growth America Needs*, ed. Brendan Miniter (New York: Crown Business, 2012): 245-260.

otherwise might experience labor shortages while reducing unemployment or falling relative wages in areas that are growing more slowly.[12]

Immigrants' fiscal impact

Immigrants' net fiscal impact—the difference between taxes paid and publicly-funded benefits received—varies considerably by education level. The best estimates of this impact are from a 1997 study by the National Research Council and so are now unfortunately quite old.[13] Those estimates indicate that the net present value of the average fiscal impact of an immigrant over his or her lifetime is –$89,000 for an immigrant with less than a high school education, –$31,000 for an immigrant with a high school education, and +$105,000 for an immigrant with more than a high school education. Including immigrants' descendants reduces the negative impact of the least-educated immigrants and makes the impact of high school-educated immigrants positive. Importantly, the fiscal impact is more likely to be positive for younger immigrants than for immigrants who arrive when middle-aged or elderly.

Although the net federal impact of current immigrants appears to be small, state and local governments in areas with large populations of low-skilled immigrants experience a sizable negative fiscal impact. Much of these costs are due to educating the children of immigrants since those costs are primarily borne by states and localities. Medicaid costs are also substantial for states with large low-skilled immigrant populations.

Principles for immigration policy reform

From an economic standpoint, immigration policy should prioritize those immigrants who are most likely to make the biggest economic contribution. This suggests that immigration policy should put considerable emphasis on immigrants' skills. The most highly-educated immigrants make the greatest economic and fiscal contributions. Immigrants who graduated from U.S. colleges and universities and work in STEM fields appear to have the most positive effect on employment among U.S. natives, and they are also particularly likely to innovate, so prioritizing that group makes economic sense.

More generally, putting greater priority on immigrants who have a job offer from a U.S. employer would boost the economic and fiscal impacts of immigration relative to current policy. Current policy instead emphasizes family ties. It is not clear that immigrants who are admitted on the basis of family ties have the skills most desired by U.S. employers.

Immigration reform along the lines of several other general principles would boost immigration's economic impact. First, immigration inflows should be more closely tied to the business cycle. Immigrants would fare better—and U.S. natives, too—if more immigrants entered when the U.S. economy is booming and fewer when it is weak. Right now, few sources of legal inflows are responsive to the business cycle because of the long backlogs and low caps that characterize the

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[12] In economic terms, faster mobility speeds up wage convergence. See George J. Borjas, "Does Immigration Grease the Wheels of the Labor Market?" *Brookings Papers on Economic Activity* 1 (2001): 69-119. Borjas estimates that the efficiency gains accruing to natives from faster regional wage convergence are around $5 billion to $10 billion per year.

[13] James P. Smith and Barry Edmonston, eds., *The New Americans: Economic, Demographic, and Fiscal Effects of Immigration* (Washington, DC: National Academy Press, 1997).

current system.[14] Ironically, unauthorized immigrants are the group whose entry is most responsive to the business cycle.

Market forces also should play a greater role in determining which immigrants are admitted. Right now, many immigrants are admitted on a first-come, first-served basis or randomly via lotteries instead of giving priority to immigrants who will make the greatest economic contribution. For example, the number of applications received for H-1B visas during the first week of the filing period for the 2014 fiscal year far exceeded the 65,000 visas that will be available. This clearly indicates that the cap is too low, and it particularly disadvantages employers who will want foreign workers later in the year and failed to anticipate their need for workers far enough to have already submitted their applications. H-1B visas will be allocated randomly among the pool of applications received that first week. Such random selection does not prioritize those foreign workers who make the greatest economic contribution or who employers want the most.

Allowing foreign workers greater mobility across employers would benefit the economy in several ways. If a worker has better opportunities in another area or occupation or with another employer, that worker should be able to move. But foreign workers—particularly those on temporary non-immigrant visas, such as H-1B, H-2A, and H-2B visas—have great difficulty moving employers or jobs. Mobility helps alleviate any labor shortages or inflationary wage pressures in booming areas while also helping ease unemployment or falling relative wages in slower-growing areas. In addition, mobility helps ensure that employers cannot take advantage of workers and reduces any adverse effects on competing American workers.

From an economic standpoint, it is desirable to encourage short-term migration instead of permanent residency. Creating a program that allows immigrants who remain employed in the U.S. for a certain period while on temporary visas to opt to adjust to permanent residence would be better than granting permanent residence to many immigrants from the outset.

Economic forces should play a greater role in immigration policy. Doing so improves the living standards of Americans and reduces any adverse effects of immigration. It helps reduce the deficit and bolster Social Security. It is also fairer. Right now, immigration policy heavily favors the small share of Americans who have eligible relatives they want to sponsor. Basing immigration policy on economic grounds would benefit more Americans and open our "golden door" to more immigrants who want to enter, work, and succeed here.

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[14] Pia M. Orrenius and Madeline Zavodny, *Beside the Golden Door: U.S. Immigration Reform in a New Era of Globalization* (Washington, DC: American Enterprise Institute Press, 2010).

The Fiscal and Economic Impact of Immigration on the United States

Testimony Prepared for the Joint Economic Committee
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When considering the economics of immigration, there are three related but distinct issues that should not be confused. First, immigration makes the U.S. economy (GDP) larger. However, by itself a larger economy is not a benefit to native-born Americans. Though the immigrants themselves benefit, there is no body of research indicating that immigration substantially increases the per-capita GDP or income of natives.

Second, there is the fiscal impact — taxes paid by immigrants minus the costs they create for government. There is general agreement that less-educated, lower-income immigrants are a net fiscal drain; and more-educated, higher-income immigrants are a net fiscal benefit.

Third, there is immigration's effect on the wages and employment opportunities of native-born workers. Basic economic theory predicts that immigration should create a net gain for natives, but to do so it redistributes income from workers in competition with immigrants to workers not in competition and to owners of capital. Theory also predicts that the size of the net gain will be tiny relative to the size of the economy and the size of the redistribution. Because the least educated and poorest Americans are the most likely to be in competition with immigrants, they tend to be the biggest losers from immigration.

Putting aside economic theory, the last 13 years have witnessed an extraordinary situation in the U.S. labor market — all of the employment gains have gone to immigrant workers. This is extremely puzzling since the native-born account for about two-thirds of the growth in the working-age population, and should therefore have received roughly two-thirds of the employment growth. Even before the Great Recession, a disproportionate share of employment gains went to immigrants even though natives account for most of the increase in the working-age population.

Key Findings of Research:

Impact on Aggregate Size of Economy

- George Borjas , the nation's leading immigration economist estimates that the presence of immigrant workers **(legal and illegal)** in the labor market makes the U.S. economy (GDP) an estimated 11 percent larger ($1.6 trillion) each year.[1]

- But Borjas cautions, "This contribution to the aggregate economy, however, does not measure the net benefit to the native-born population." This is because 97.8 percent of the increase in GDP goes to the immigrants themselves in the form of wages and benefits.[2]

Impact on Wages and Employment

- Using the standard to textbook model of the economy, Borjas further estimates that the net gain to natives equals just 0.2 percent of the total GDP in the United States — from both **legal and illegal** immigration. This benefit is referred to as the immigrant surplus.[3]

- To generate the surplus of $35 billion, immigration reduces the wages of natives in competition with immigrants by an estimated $402 billion a year, while increasing profits or the incomes of users of immigrants by an estimated $437 billion.[4]

- The standard model predicts that the redistribution will be much larger than the tiny economic gain. The native-born workers who lose the most from immigration are those without a high school education, who are a significant share of the working poor.

- The findings from empirical research that tries to examine what actually happens in response to immigration aligns well with economy theory. By increasing the supply of workers, immigration does reduce the wages for those natives in competition with immigrants.

- Economists have focused more on the wage impact of immigration. However, some studies have tried to examine the impact of immigration on the employment of natives. Those that find a negative impact generally find that it reduces employment for the young, the less-educated, and minorities.

Immigrant Gains, Native Losses

- Recent trends in the labor market show that, although natives account for the majority of population growth, most of the net gain in employment has gone to immigrants

- In the first quarter of 2013, the number of working-age natives (16 to 65) working was 1.3 million fewer than in the first quarter of 2000, while the number of immigrants working was 5.3 million greater over the same period. Thus, all of the employment growth over the last 13 years went to immigrants even though the native-born accounted for two-thirds of the growth in the working age population.[5]

- The last 13 years have seen very weak employment growth, whether measured by the establishment survey or the household survey. Over the same time period 16 million new immigrants arrived from abroad.[6] One can debate the extent to which immigrants displace natives, but the last 13 years make clear that large-scale immigration does not necessarily result in large-scale job growth.

Fiscal Impact:

- The National Research Council (NRC) estimated in 1996 that immigrant households (legal and illegal) create a net fiscal burden (taxes paid minus services used) on all levels of government of between $11.4 billion and $20.2 billion annually.[7]

- The NRC also found that the fiscal impact of immigration depends heavily on the education level of the immigrant in question.[8]

- At the individual level, excluding any costs for their children, the NRC estimated a net lifetime fiscal drain of -$89,000 (1996 dollars) for an immigrant without a high school diploma, and a net fiscal drain of -$31,000 for an immigrant with only a high school education. However, more educated immigrants create a lifetime net fiscal benefit of +$105,000.[9]

- A just-released study from the Heritage Foundation found that the average household headed by an illegal immigrant used nearly $14,400 more in services than it paid in taxes, for a total fiscal drain of $55 billion.

- The Heritage study is absolutely clear that the fiscal costs associated with illegal immigrant households is directly related to their educational attainment. They find that illegal immigrant have on average only 10 years of schooling.

- Figure 2 at the end of this testimony illustrates the importance of education. For example, it shows that 59 percent of households headed by an immigrant who has not graduated high school access one or more welfare programs, and 70 percent have no federal income tax liability. In contrast, 16 percent of households headed by an immigrant with bachelor's degree access welfare and only 21 percent had no federal income tax liability.

- In a study I authored for the Center for Immigration Studies (CIS), we found that if illegal immigrants were legalized and began to pay taxes and use services like households headed by legal immigrants with the same education levels, the annual net fiscal deficit would increase to $29 billion, or $7,700 per household at the federal level.[10]

- Illegal immigrants with little education are a significant fiscal drain, but less-educated immigrants who are legal residents are a much larger fiscal problem because they are eligible for many more programs. For this reason amnesty increases costs in the long run. Heritage's just-released study confirms the finding that amnesty would substantially increase costs over time.

Introduction

In my written testimony I will first briefly discuss the extraordinary developments in the U.S. labor market over the last decade, whereby all or almost all of the net growth in employment went to immigrants. Second, I will discuss the newest research examining the impact on the labor market of immigration. Third I will discuss the fiscal impact of immigration. In the discussion that follows I use the words immigrant and foreign-born synonymously. Following the Census Bureau definition, immigrants or the foreign-born are persons who were not U.S. citizens at birth.

The U.S. Labor Market Impact

Immigrant Gains and Native Losses

The grey bars in Figure 1 at the end of this testimony report the growth in the adult working-age population — 16 to 65 years of age. The vast majority of workers in the United States

fall into the 16- to 65-year-old age group so focusing on this population makes sense when considering the population of potential workers. Figure 1 shows that the total working-age population in the United States increased by 25.2 million between the first quarter of 2000 and the first quarter of 2013 — 8.8 million for immigrants and 16.4 million for natives. Thus, natives account for 65 percent of the net increase in the working-age population.

Despite natives accounting for most of the growth in the number of potential workers, Figure 1 shows that all of the net gain in employment went to immigrant workers. (An analysis of 18- to 65-year-olds produces very similar results.) The black bars in the figure show the change in the number of 16- to 65-year-olds actually holding a job. The bars show that in 2013 there were 5.3 million more immigrants holding jobs than was the case in 2000, but the same bar for natives holding a job actually shows a loss of 1.3 million. Put a different way, the figure indicates that although the number of potential native-born workers increased by 16.4 million, the number actually working fell by 1.3 million. This means that to the extent there was any increase in the number of people working in the United States in the last 13 years, all of that increase went to immigrants.

This development does not prove that immigrants are displacing natives from the labor market. But it is exactly the kind of pattern we would expect to see if that was happening. This situation is also important because the last 13 years have seen the arrival of nearly 16 million new immigrants of all ages, 2000 to 2013.[11] Yet Figure 1 makes clear it there has been very little job growth over this time period. This is a clear indication that large-scale immigration does not necessarily result in large-scale job growth.

Some may reasonably wonder how things look in different quarters. The most recent data available is the first quarter for 2013. The best first quarter of any year for natives was the first quarter of 2007, right before the recession began. Comparing that quarter to the first quarter of 2000 shows a net increase in the number of natives working of 3.3 million. (The results in Figure 1 mean that all of the employment growth for natives 2000 to 2007 was lost during the Great Recession.) The net gain for immigrants 2000 to 2007 was 4.9 million, meaning that 60 percent of the employment growth still went to the foreign-born. This may not seem so disconcerting, until one considers that natives account for 62 percent of the growth in the 16- to 65-year-old population from 2000 to 2007. So even at the peak of the last expansion in 2007, a disproportionate share of job growth went to immigrants relative to their share of population growth.

Theoretical Impact of Immigration on the Labor Market

There is a standard way of calculating the benefit from immigration, also referred to the as the immigrant surplus, that goes to the existing population. The figures in the first bullets of this executive summary are from a new paper by George Borjas. Below I will explain how those figures are calculated.[12]

A 1997 study by National Research Counsel (NRC),[13] authored by many of the top economists in the field, summarizes the formula for calculating the benefit (see pp. 151-152). The NAS study updates an earlier study by the nation's top immigration economist, George Borjas of Harvard.[14] The figures discussed in the bullets above come from Dr. Borjas's most recent paper on the subject. In 2007 the President's Council of Economic Advisers (CEA) also used the same formula to estimate the benefit of immigration to Americans.[15]

The next gain from immigration can be estimated using the following formula:

Net gain from immigration as a share of GDP = - .5 * labor's share of income * wage elasticity * immigrant share of labor force squared.

"Labor share" refers to the percentage of GDP that goes to workers, which is usually thought to be 70 percent, the rest being capital. The immigrant share of the labor force is well known, and is currently 15 percent. "Wage elasticity" refers to the percentage change in wages from immigration increasing the size of the labor force by one percent. The size of the elasticity is a contentious issue. The NAS study assumed an elasticity of .3, and so will I in the calculation below. This means that each 1 percent increase in supply of labor caused by immigration reduces wages by 0.3 percent. Put a different way, if immigration increased the supply of workers by 10 percent, it would reduce the wages of American workers by 3 percent. Putting the values into the formula produces the following estimate:

0.24% =-.50 * .70 * -0.3 * (.15*.15)

Thus the net gain from immigration is 0.24 percent of GDP. (Expressed as decimal it is .0024.) If GDP is $15 trillion, then the net benefit would be about $35 billion. Three important points emerge from this analysis. First, the net effect of immigration on the existing population is positive overall, thought not for all workers. Second, the benefits are trivial relative to the size of the economy, less than one-quarter of 1 percent of GDP. Third, the benefit is dependent on the size of the wage losses suffered by the existing population of workers. Or put a different way, the bigger the wage loss, the bigger the net benefit. Those who contend that immigration has no impact on the wages of immigrants are also arguing, sometimes without realizing it, that there is no economic benefit from immigration.

The same model can be used to estimate the wage losses suffered American workers. Wage loss as a fraction of GDP = - "labor's share of income" * "wage elasticity" * "immigrant share of labor force"* "native-born share of labor force".

Putting the numbers into the equation you get the following:

2.7% = -0.7 * -0.3 * 0.15 * 0.85

This is 2.7 percent of GDP, or $405 billion in wage losses suffered by American workers because of immigration. This is not trivial. There is nothing particularly controversial about this estimate and its stems from the same basic economic formula as the one above. Think of it this way: Labor is 70 percent of the economy, which is $15 trillion in total. If the elasticity is .3 and immigrants are 15 percent of the labor force, then wages will decline several percentage points (15 * .3). Thus the total wage loss must run into the hundreds of billions of dollars. If we are to accept the benefit that the model implies from immigration, then we must also accept the wage losses that the model implies.

The money that would have gone to workers as wages if there had been no immigration does not vanish into thin air. It is retained by owners of capital as higher profits or passed on to consumers in the form of lower prices. The fact that business owners lobby so hard to keep

immigration levels high is an indication that much of the lost wages are likely retained by them. Also, workers who face little or no competition from immigrants will not suffer a wage loss. In fact, demand for their labor may increase and their incomes rise as a result. For example, if you are an attorney or a journalist at an English-language news outlet in the United States you face very little competition from immigrants.[16] In fact, immigration may increase your wages as demand for your occupation rises. In contrast, if you are a nanny, maid, bus boy, cook, meat packer, or construction laborer, the negative wage impact is likely to be large because immigration has increased the supply of workers in these sectors quite a bit. But overall the gain to some workers, businesses, and consumers is still slightly larger than the loss suffered by the losers; hence the tiny net benefit reported above.

Imperial Research

Jobs Americans Don't Do? To begin with, some may feel that there is no job competition between immigrants and native-born workers. But a recent analysis of all 472 civilian occupations shows that only six are majority immigrant (legal and illegal). These six occupations account for 1 percent of the total U.S. workforce. Moreover, native-born Americans still comprise 46 percent of workers even in these occupations. There are 67 occupations in which 25 percent or more of workers are immigrants (legal and illegal). In these high-immigrant occupations, there are still 16.5 million natives — accounting for one out of eight natives in the labor force. The idea that there are jobs that only immigrants do is simply incorrect.[17]

Impact of Immigration Is National, Not Local. Attempts to measure the actual labor market effects of recent immigration empirically have often come to contrary and conflicting conclusions. Studies done in the 1980s and early 1990s, which compared cities with different proportions of immigrants, are now widely criticized because they are based on the assumption that the labor market effects of immigration are confined to only those cities where immigrants reside.

The interconnected nature of the nation's economy makes comparisons across cities of labor market outcomes based on the share of the population that is immigrant very difficult. The movement of people, goods, services, and capital defuses the impact of immigration, undermining the cross-city approach. Moreover, the immigrants themselves generally settle in areas of high employment growth making comparisons all the more difficult.

National Approach Wage Impact. In order to overcome the problems of cross-city comparisons, researchers over the last decade have begun to divide workers by education and age and compare the impact of immigration across these education and age groups. Comparisons over time shows that a 10 percent increase in the size of an education/age group due to the entry of immigrants (both legal and illegal) reduces the wage of native-born men in that group by 3.7 percent and the wage of all native-born workers by 2.5 percent. This finding is consistent with the 3 percent elasticity discussed above and is consistent with what economic theory would predict. Further support for the findings using this approach can be found from a recent study in other countries using the same approach.[18]

Impact on Employment. Economists have focused more on wages than employment. Several studies have attempted to measure the impact of immigration on the employment patterns

of immigrants to see if it crowds natives out of the labor market. In an extensive study of California, the Rand Corporation estimated that between 128,000 and 195,000 natives in California were either unemployed or withdrew from the labor force because of immigration from 1970 to 1990.[19] Several studies also have found that immigration adversely impacts black Americans. Two recent studies have even concluded that immigration not only reduces the employment of less-educated black men, it also increases crime and incarceration among that population.[20]

Other research has found that immigration adversely impacts the employment of the younger worker. Research by Christopher Smith, an economist at the Federal Reserve, has found that immigration has played a significant role in reducing employment for teenagers.[21] My own research supports these findings.[22] Other research tends to confirm these finding.[23] However, the issue of how immigration impacts the employment opportunities available to natives remains contentious.

Fiscal Impact

In the modern American economy, those with relatively little education (immigrant or native) earn modest wages on average, and by design they make modest tax contributions. Because of their relatively low incomes, the less educated, or their dependent children, are often eligible for welfare and other means-tested programs. As a result, the less educated use more in services than they pay in taxes. This is true for less-educated natives, less-educated legal immigrants, and less-educated illegal immigrants. There is simply no question about this basic fact.

The relationship between educational attainment and net fiscal impact is the key to understanding the fiscal impact of immigrants, legal or illegal. Figure 2 at the end of the report makes clear why less-educated immigrants are a net fiscal drain on average. Households headed by immigrants with a high school education or less have high rates of welfare use and relatively low income tax liability. Figure 3 shows that less-educated natives also have high rates of welfare use and low income tax liability. This is an indication that it is education levels, not being an immigrant per se that creates the costs,.

In the case of illegal immigrants, the vast majority of adults have modest levels of education, averaging only 10 years of schooling. This fact is the primary reason they are a net fiscal drain, not their legal status.

It must also be understood that use of welfare and work often go together. Of immigrant-headed households using welfare in 2011, 86 percent had at least one worker during the year. The non-cash welfare system is specifically designed to help low-income workers, especially those with children. There are also a number of other programs in addition to welfare that provide assistance to low-income workers, such as the Earned Income Tax Credit and the cash portion of the Additional Child Tax Credit.

The just-released Heritage Foundation study found that households headed by a legal immigrant who had not graduated high school used, on average, $36,993 more in services than they paid in taxes. Households headed by a legal immigrant with only a high school education created a net fiscal deficit of $18,327, those with some college created a deficit of $7,489 and those headed by an immigrant with at least a college education created a fiscal benefit of $24,529.[24] This analysis confirms the finding from the NRC study discussed in the bullets and the results in Figures 2 and 3, — education is the key to understanding the fiscal impact of immigrants.

There is no better predictor of one's income, tax payments, or use of public services in modern America than one's education level. The vast majority of immigrants come as adults, and it should come as no surprise that the education they bring with them is a key determinant of their net fiscal impact.

Advocates of amnesty and allowing in large numbers of less-educated immigrants have three main responses to the above analysis. First they argue that less-educated immigrants are no worse in terms of their net fiscal impact than less-educated natives. Second, they argue that examining households overstates the costs because it includes the U.S.-born children of immigrants. Third, they argue that less-educated immigrants, and immigrants generally, create large economic benefits that offset the fiscal costs they create. As will be discussed below, none of these arguments holds much water.

Counter Claims on Fiscal Effects

Claim: "Less-Educated Immigrants No Worse than Less-Educated Natives." As I have emphasized in the discussion above, and Figures 1 and 2 below make clear, both less-educated natives and less-educated immigrants are likely to be significant fiscal drain. But this observation is largely irrelevant to the immigration debate. What matters is the actual fiscal impact of immigrants, not whether that impact is similar to similarly educated natives.

Immigration is supposed to benefit the country. As a sovereign country we have a right to select well-educated immigrants if we think that makes sense for our country. We also have a right to enforce our laws against illegal immigration. In contrast, less-educated natives are here and it is their birthright to remain. Their low income or high use of welfare is certainly a concern. But common sense suggests that we do not want to add to this problem by ill-conceived immigration policy. Put simply, the fiscal drain created by less-educated natives does not in any way justify allowing into the country less-educated immigrants. Of course, there may be other arguments to allowing in less-educated immigrants.

Claim: "Children Should Not Count." Advocates for high immigration often object to doing analysis by households because it includes the U.S.-born children of immigrants. They argue that the costs for education, welfare, and other programs that benefit children should not be counted because these children are not immigrants. (More than 80 percent of children in immigrant households are U.S.-born.) Of course such an argument ignores the fact that the children would not be here but for their parents having been allowed into the country. Further the critics argue that someday the children will grow to adulthood and pay back these costs. This may or may not turn out to be true, but it does not change the very real costs created in the present.

The NRC study cited above did individual level analysis, excluding U.S.-born children, and still found a large fiscal drain if the original immigrant arrived without a high school education or with only a high school education. In other words, even without the children, there was still a significant net fiscal drain from less-educated immigrants.

Second, it is not clear that an individual rather than a household-level fiscal analysis makes sense. At the very least it is difficult to do individual-level analysis accurately because tax liability and eligibility for means-tested programs are based on the income and number of dependents in a household. Although the Cato Institute today is critical of the idea of doing household-level analysis, the late Julian Simon, who was a scholar at the Cato Institute and helped shape the institute views on immigration, thought that individual level analysis did not make sense. In a 1984

article Simon was clear that to evaluate the fiscal impact of immigration one had to examine both the immigrant and the family "he brings or acquires." He states, "One important reason for not focusing on individuals is that it is on the basis of family needs that public welfare, Aid to Families with Dependent Children (AFDC), and similar transfers are received." For this reason Simon examined families, not individuals. This is very similar to a household-level analysis. As Simon himself observed, the household "in most cases" is "identical with the family."[25]

Support for a household-level analysis is very common among academics. The National Research Council states that the, "household is the primary unit through which public services are consumed and taxes paid", in their analysis of the fiscal impact of immigrants. In their study of New Jersey, Deborah Garvey and Princeton University professor Thomas Espenshade also used households as the unit of analysis because as they pointed out, "households come closer to approximating a functioning socioeconomic unit of mutual exchange and support."[26] In their 1996 study of immigrant welfare use, Borjas and Hilton examine households.[27] The Census Bureau itself has reported welfare use for immigrants and natives by household.[28] Household-level analysis makes sense because a child can only be enrolled in Medicaid or free/reduced school lunch if the total income of his or her family or household is below the eligibility threshold. Moreover, many welfare benefits can be consumed by all members of the household such as food purchased with food stamps.

On a more practical level, the costs created by children are quite real for taxpayers. Any hoped-for fiscal benefit these children may or may not create in the future is a long way off and unknown, while the current costs are real and must be paid.

Finally, it must be pointed out that if the critics are correct — that children should not count — then the same must be true for native-headed households. But if programs and benefits that go to children are excluded, a large share of the federal current budget deficit does not exist. Similarly, if education is not counted then most state and local governments are flush with money. Of course, such a conclusion is total nonsense. Taxpayer money spent welfare and education for children is real and significant.

Suggesting that money spend on the children of immigrants or children, generally, should not be counted as a real cost is completely contrary to common sense. This type of argument only obscures the issue and not is unhelpful when thinking about the costs and benefits of immigration.

Claim: "Economic Benefits Offset Fiscal Costs." This argument takes several forms, but the idea is that immigration increases the income of natives and this offsets the fiscal costs immigration creates. The National Research Council study mentioned above is the only study of which I am aware that tried to measure both the economic and fiscal impact of immigration. That study concluded that the economic gain to the native-born, which is referred to by economists as the "immigrant surplus", was $1 billion to $10 billion a year in 1996. Above I update those numbers. At the same time the NRC estimated that the net fiscal drain (taxes paid minus services used) from immigrant households was negative $11 billion to $20 billion a year. Thus, there was an economic benefit, but it was smaller than the fiscal drain. While advocacy groups have tried to argue otherwise, there is simply no objective research indicating that immigration creates significant economic gains for natives.

Recently some immigration advocates have argued that the Gang of Eight immigration plan will result in significant net gains for public coffers based on the idea of "dynamic scoring" or "dynamic analysis." Chief among them has been Sen. John McCain's former economic advisor, Douglas Holtz-Eakin. Mr. Holtz-Eakin laid out his argument in an opinion piece published by the

American Action Forum, which he heads.[29] He also recently testified before Congress on this issue. Elsewhere I provide a much longer critique of his arguments.[30] Below I touch on some of the main problems with his formulation.

The central point of Holtz-Eakin's "dynamic analysis" is to argue that immigration-induced population growth by itself will have a positive, indirect impact on per capita GDP, thereby benefiting public coffers. The few studies he cites to support this argument do not deal with immigration; it is theoretic work suggesting a relationship between a larger population and positive economic outcomes. It is not at all clear whether this work is even relevant to immigration-induced population growth.

Probably the biggest weakness of his analysis is that he ignores the actual characteristics of immigrants generally, and illegal immigrants in particular, factors that bear directly on their fiscal impact. This includes relatively high poverty, welfare use, lack of health insurance, and their more modest tax payments. Holtz-Eakin even ignores the research indicating that the education level of immigrants at arrival has direct bearing on their income, tax payments, use of public services, and their resulting net fiscal impact.

He further ignores the economic literature focusing on immigration's economic impact, which shows that immigration does not significantly increase the per capita GDP or income of the existing population. As the nation's leading immigration economist, George Borjas of Harvard points out in a recent paper, "Although immigration makes the aggregate economy larger, the actual net benefit accruing to natives is small, equal to an estimated two-tenths of 1 percent of GDP."[31]

A larger economy from immigration is not a richer economy, though it is not a poorer one either. It may also be worth noting that to generate these tiny gains immigration has to redistribute income. In the United States, the workers who lose from immigration tend to be the least-educated and poorest workers, who very likely have to use more government services as their income declines.

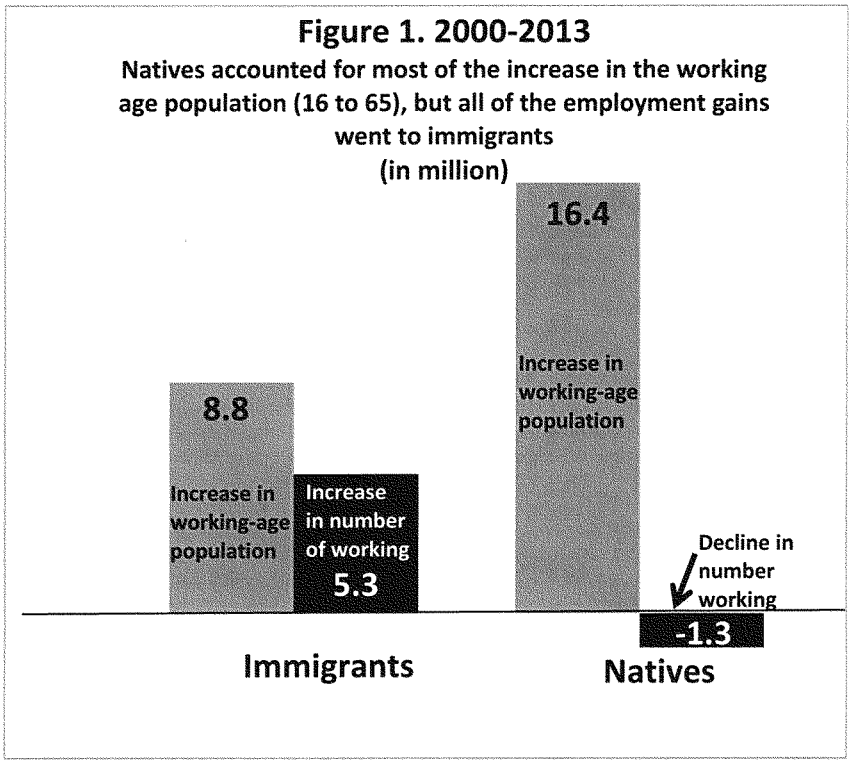
In addition to ignoring the immigration research, Holtz-Eakin also ignores the literature that looks at the impact of population growth on per capita income in developing countries, which would appear to be directly related to his argument. That research generally does not support the idea that by itself population growth increases per capita GDP. A 2009 review of 29 different studies on the impact of population growth on economic development concludes: "Particularly strong is the evidence in support of the increasingly adverse effects of population growth in the post-1980 period."[32] Maybe he feels that this work is not relevant to developed countries like the United States. But he does not say so.

Holtz-Eakin's argument is highly speculative. He completely fails to mention the fiscal impact of legalizing illegal immigrants even though this issue is at the center of the immigration reform debate.

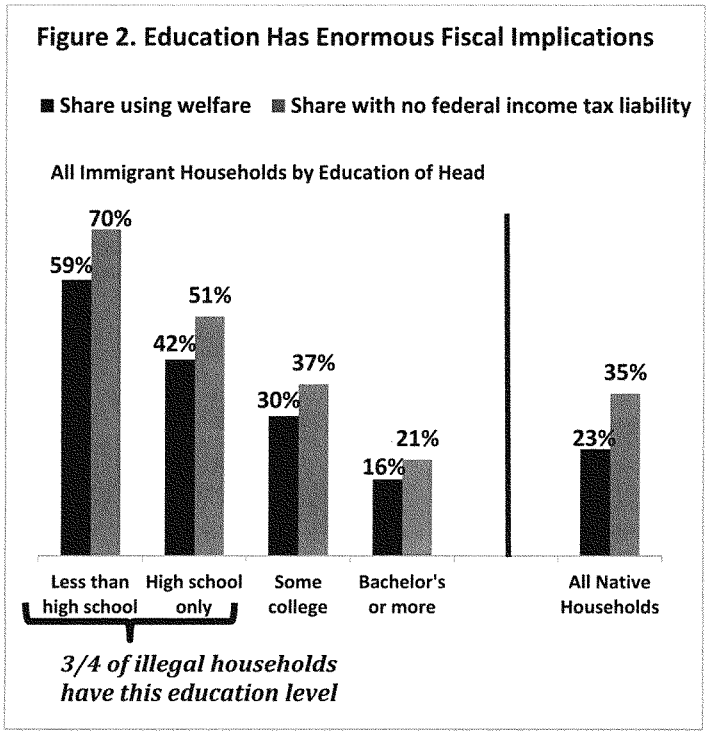
Conclusion

Immigration makes the U.S. economy larger. However, for the native-born population immigration (legal and illegal) is primarily a redistributive policy; it does not substantially raise the overall income of native-born Americans. As for the fiscal impact of immigration, the education level of the immigrants in question is the key to understanding their fiscal impact. If you take nothing else away from my testimony, it should be remembered that it is simply not possible to fund social programs by bringing in large numbers of immigrants with relatively little education. This is central to the debate on illegal immigration given that such a large share of illegal immigrants have modest

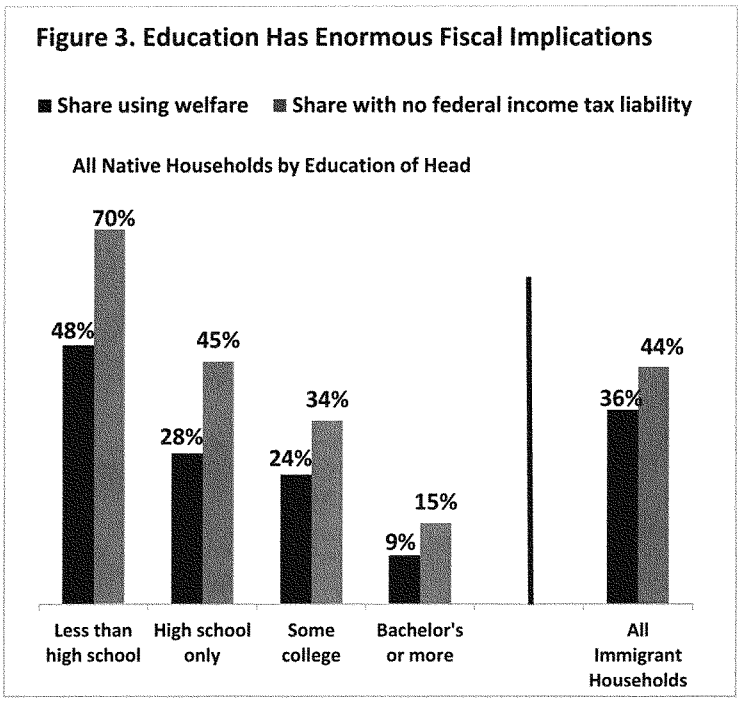
levels of education. The fiscal problem created by less-educated immigrants exists even though the vast majority of immigrants, including illegal immigrants, work and did not come to America to get welfare. The realities of the modern American economy coupled with the modern American administrative state make large fiscal costs an unavoidable problem of large scale, less-educated immigration. However, all the available evidence indicates that skilled immigration should be a significant fiscal benefit.



Source: January, February and March 2000 and January, Current Population Survey and the February and March 2013.



Source: Public use file of the March 2011 Current Population Survey. Welfare programs include SSI, TANF, food stamps, WIC, free lunch, public/subsidized housing and Medicaid.



Source: Public use file of the March 2011 Current Population Survey. Welfare programs include SSI, TANF, food stamps, WIC, free lunch, public/subsidized housing and Medicaid.

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[1] George Borjas "Immigration and the American Worker: A Review of the Academic Literature" 2013. Center for Immigration Studies. http://thf_media.s3.amazonaws.com/2013/pdf/sr133.pdf.
[2] See end note 1.
[3] See end note 1.
[4] See end note 1.
[5] See end note 12.
[6] See end note 12.
[7] *The New Americans: Economic, Demographic, and Fiscal Effects of Immigration.* 1997 National Academy of Sciences Press. A summary of the report's findings can be found at www.cis.org/articles/1999/combinednrc.pdf.
[8] See end note 7.
[9] See end note 7.

[10] Steven Camarota "The High Cost of Cheap Labor Illegal Immigration and the Federal Budget" 2004 Center for Immigration Studies. http://www.cis.org/High-Cost-of-Cheap-Labor

[11] Figures are based on the year of entry question from the Public Use file of the January, February and March Current Population Survey.

[12] George Borjas "Immigration and the American Worker: A Review of the Academic Literature" 2013. Center for Immigration Studies. http://thf_media.s3.amazonaws.com/2013/pdf/sr133.pdf

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[19] Kevin McCarthy and George Vernez. 1997 *Immigration in a Changing Economy, California's Experience* Rand Corperation. http://www.rand.org/content/dam/rand/pubs/monograph_reports/2007/MR854.pdf

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255-282. Borjas et. al. found a 10 percent increase in the supply of less educated immigrant workers, controlling for age reduced the fraction of native-born blacks in that group holding a job by 5.1 percentage points. See also "Latino Employment and Black Violence: The Unintended Consequence of U.S. Immigration Policy Edward S. Shihadeh, Raymond E. Barranco Social Forces, Volume 88, Number 3, March 2010, pp. 1393-1420 (Article) Published by Oxford University Press. Shihadeth et. al. find that Latino immigration increases urban black violence. They conclude that, "Latino immigration raises black violence by first increasing black unemployment." An earlier study by Augustine Kposowa also found that immigration had a negative impact on black employment. See Kposowa "The Impact of Immigration on Unemployment and Earnings Among Racial Minorities in the United States." 1995 Racial and Ethnic Studies, Vol. 18.

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http://www.jstor.org/discover/10.1086/662073?uid=3739936&uid=2&uid=4&uid=3739256&sid=21101890864913

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[30] "Dynamic Scoring of Immigration? A Critique of Douglas Holtz-Eakin's Analysis" 2013, Steven A Camarota Center for Immigration Studies. http://cis.org/dynamic-scoring-of-immigration

[31] See "Immigration and the American Worker A Review of the Academic Literature", 2013 Center for Immigration Studies.

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