

The Impact of Illegal Immigration on small businesses
Testimony Prepared for the
Subcommittee on Immigration, Border Security and Claims
Committee on the Judiciary
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Mr. Chairman and members of the subcommittee: Thank you for the privilege to testify at today's hearing. My name is Matthew Reindl and I manage my family's small 3rd generation woodworking factory. I have no political affiliations nor am I affiliated with any ethnic advocacy group. I believe I am speaking for the tens of thousands of law abiding small business owners and millions of American taxpayers who are frustrated at our government's mishandling of immigration laws. Many law abiding businesses are being adversely affected, many forced to close, because of our government refusal to punish unethical employers for their illegal hiring practices.

Newspapers, economists, and politicians have indicated that illegal immigrants do the jobs that Americans don't want and thereby help America by keeping inflation down and are good for businesses and our economy. Illegal immigration has kept the cost of services and goods down causing our inflation rate to remain low however; it continues to suppress the wages and standards of living to legal immigrants and native born Americans. I have not been able to give my employees raises because illegal aliens are depressing the labor wages of my industry. My product price has not gone up because

competitors have either dropped health insurance for their employees or hired cheaper help, many of whom I believe are illegal aliens. I know this to be true from the many job applicants I interview. When I put a help wanted ad in the paper, half of those applying admit to being illegal immigrants and admit they have worked in nearby factories. Personally, I believe that the low wage paid to illegal workers is a contributing factor to our jobless recovery.

If continued the following factors will eventually lead to an American economic decline.

1. Millions of native born Americans and legal immigrants are being displaced because they loose jobs to illegal immigrants who work for less money. Examples can be found in the meat packing industry, construction, factory and the hotel industries.
2. Monies going into an underground economy will provide less income, and produce less local, state, and federal income tax revenue. This also places more of a tax burden on honest taxpaying residents and businesses. It is estimated just under a trillion dollars a year is going into the underground economy untaxed. This represents 9% of the real economy.¹
3. Illegal immigrants increase our trade balance deficit by sending billions of dollars back to their homeland. This is money that legal residents would spend in America on American goods and services, thus vitalizing our economy.
4. When goods and services are not purchased in this country, it reduces sales, which reduces profits, which in turn reduces local, state, and federal tax revenues.
5. Lower wages reduce the standard of living in the whole country.
6. Reduced salaries increase the percentage of people who become dependent on government assistance.
7. When illegal immigrants use false ID's to secure work and quote "pay taxes", do they really pay taxes?
 1. When an employee fills out a w-4, that person can claim several dependents, which would then result in 0 dollars Federal and State deductions.
 2. 43% of those who file income tax returns actually benefit from the income tax as they collect refundable credits in excess of their tax liabilities².
8. When illegal Mexican immigrants use false ID's to secure work, they will be eligible to receive benefits from our social security system under President Bush's proposed Totalization Agreement with Mexico. This could be a severe drain on our faltering social security fund.
9. The toll illegal immigration is having on the health care, education and incarceration system is devastating to the state economies. In California alone the price burden on taxpayers for illegal aliens is over 10.5 billion dollars a year³.

¹ Barron's/Frontpagemag.com, Jan 6 2005.by Jim McTague. Going underground: America shadow economy.

² Washington Times, Jan 21,2002 by Paul Craig Robert

³ Washington Times, Dec 7, 2004 by Jerry Seper

Factory workers now and then

My grandfather, who was a trained cabinetmaker, made that journey from Europe in 1930. Back in those days an immigrant had to be sponsored in order to enter our nation legally, and thus he did so. There was no Social Security, welfare or social assistance. Everyone had to make it on their own. He was a man that always obeyed the law and taught his family to respect the rules and laws of the country.

In 1951, 20 years after my Grandfather entered this country, he was bold enough to open a woodworking factory with the money he saved through the years. Cabinet making was a predominantly European craft, so with other legal immigrants at his side he made the American dream happen. Hand in hand, different cultures working together to fulfill many dreams. The factory was passed onto my father and now onto me, the 3rd generation. Today as it was 50 years ago I work with native born Americans and legal immigrants. Our employee with the longest longevity (over 25 years) is a Muslim immigrant from Turkey. The company went through all the legal channels to sponsor him. In addition to him, Stylecraft has sponsored other employees throughout the years. Most of our employees in the past had only one breadwinner in the family and could live quite well on one salary. Actually, factory employees fared well when the United States was an exporting nation.

One thing I am grateful for is that my Grandfather instilled in my father excellent morals and taught him to always abide by the law. This philosophy too, was passed on to me. Our company has always paid its fair share of taxes and its fair share of salary. We do everything ethically and by the book. We also have always paid the entire cost of health insurance for the employee and family, but starting this year we will only be able to pay for the employee and not the family members. If illegal immigration continues, I fear in the future we will not be able to provide health insurance all together.

Today the American working class is being squeezed from all ends. Our cost of living is going up drastically, while at the same time salaries are being suppressed. Today, many married couples find it difficult to live on one salary.

High paying computer and technical jobs are being outsourced to foreign countries. Many of our manufacturing jobs are also leaving the country to foreign countries where the salary ranges between 20 cents and \$3.50 per hour. This huge wage imbalance is one factor which will keep American jobs and wages suppressed. Another factor of American job and wage suppression is the massive influx of millions of illegal aliens into our country each year. This is something our government can control, which has been done in our past. In fact it is the constitutional responsibility of the United States government to control our borders and stop invasions.⁴

I believe that illegal immigration has contributed to the fact that I have not been able to offer substantial raises for several years. My employee's wages are depressed. When a native born American applies for a job and I mention the salary, many say they

⁴ US Constitution article IV, section IV.

can not make ends meet on that wage. Native born Americans express interest in the jobs however, because of the suppressed wage they tend to look for a different line of work or join a union or seek government jobs.

Employer's responsibility

The law states it is illegal to hire an illegal alien
All employers must complete an I-9 form
All employers must deduct for social security, and income tax.

Stylecraft Interiors Inc. complies with these federal laws:

Verify immigration status and complete Federal form I-9
Deduct federal income tax and process W-4 forms.
Deduct Social Security and Medicare contributions.
Match Social Security and Medicare contributions
Pay Federal Unemployment Tax

Stylecraft Interiors Inc. also complies with these New York State Laws:

Deduct state income tax
Deduct Disability Insurance.
Pay New York State Workers Compensation Insurance
Pay New York State Unemployment insurance tax
Pay New York State disability insurance.
Fill out State form N-96-2. And send that and a copy of w-4 or equivalent to the State.

These are the labor laws that every New York State employer is required to obey. However, it is clear that a growing percentage of businesses are not complying. If laws are not enforced, a greater number of businesses will not comply with these labor laws, thus driving wages down.

No Interior enforcement

As law abiding businesses obey the law and slowly get taxed and priced out of existence, unlawful businesses that hire illegal aliens are profiting. They continue to profit with no fear of penalty due to the federal, state and local governments' unwillingness to enforce current immigration and labor laws. It is unlawful to hire an illegal alien yet politicians will say they are doing job that American don't want. I have never heard a politician say it is unlawful to hire an illegal alien and those who break the law will be prosecuted.

Since 2001, the annual number of fines imposed on employers for illegal hiring fell to fewer than 100, and bottoming out at only 13 in 2002 whereas, in the prior four years, the federal government averaged nearly 500 fines per year against employers⁵. With ten million illegal aliens employed in the country, five hundred fines seem seriously unreasonable. Thirteen fines are an example of the government's refusal to enforce its own laws. I ask, what is a law abiding business owner suppose to think? I also ask how am I to compete? As many of my competitors hire illegal aliens and turn profits am I a fool for following the law? This is what the government's message seems to be to employers.

In an article in the September 2nd, 2002 issue of Barron's financial newspaper magazine, Gene Epstein writes about a Manhattan based builder who did construction jobs totaling up to 10 million dollars each. Most of the people this builder hires are paid as day laborers and receive no benefits; especially not workers compensation, which he says is expensive.⁶ The article states that the workers are paid between \$7.00 and \$15.00 an hour, which is a very low rate of pay considering that there are no benefits and it is in New York City. The article made no mention as to the legality concerning non-payment of workers compensation insurance despite the fact that New York state law requires that all workers must be covered by workers compensation insurance.

In doing research for this testimony I wondered if any employer has ever gone to jail for hiring an illegal alien. I could not find one person that did. I also tried to find if any employer was fined or punished for not filling out an I-9 form. I can not find any information on this.

Just last week, in an article in the April 29th, 2005 issue of Newsday, Bart Jones writes that Nassau County District Attorney Denis Dillon charged three home-improvement contractors with not paying owed wages to day laborers. Dillon said the arrest of three contractors was the first step in a campaign targeting such business practices. He also said the effort may include wired undercover Hispanic investigators who pose as day laborers and work for contractors. He also said that "the immigration status of the workers is not a factor when prosecuting these cases because undocumented immigrants also must be paid for work under the law"⁷.

I would like to know why these contractors were not also charged with hiring an illegal alien, committing social security, income tax and worker compensation fraud. I am also puzzled why the local District Attorney feels the immigration status of workers is not a factor in prosecution. Immigration status under federal law certainly is a factor when I hire an employee. This is mandated by law

⁵ Office of Immigration Statistics, 2003 Yearbook of Immigration Statistics, September 2004

⁶ Barron's September 2, 2002 New Melting Pot

⁷ Newsday April 29, 2005 Da: Contractors owe day laborers

Government aided lawbreaking

Organized and unorganized hiring sites designed specifically for employing illegal aliens are appearing all around the country including towns within Long Island. Farmingville, Farmingdale, Freeport and Huntington host these sites and many more are emerging.

Not only does the government refuse to enforce the law, but federal and local governments will actually help my competitors break the law.

Several years ago a hiring site emerged in Freeport N.Y. A federal grant from HUD was given to the Village of Freeport. The town and Catholic Charities used this grant to set up a hiring site for day laborers (illegal aliens). It just so happens, that New York Department of Labor has an office 2 blocks away. They can witness first hand the illegal hiring practices of contractors on a daily basis.

Bishop Murphy of the Roman Catholic Church has gone on record saying the Catholic Church will do everything it can to help establish day laborer sites⁸. Catholic Charities also noted that the location of the Freeport site was good because it would be hard for INS agents to raid it.

To make matters worse, when the Office of Inspector General was asked to investigate this site they stated that no regulations or laws had been violated. Now I ask, if it is illegal to hire an illegal alien, then when a contractor hires one from this site, how can the Inspector General think that no laws are being violated? The Inspector General also states that even if the recipients of the hiring hall are illegal immigrants, it is irrelevant to their eligibility to receive job search assistance administered by Long Island Catholic Charities with their use of federal money. It is my perception that HUD does not believe immigration laws to be relevant.

The laws concerning the employment of illegal aliens are found in the Immigration and Nationality Act (8 U.S.C ~1101-1503) as amended by the Immigration Reform and Control Act of 1986 CIRCA.

The law states it is a crime to assist an illegal alien who lacks employment authorization by referring him to an employer, or by acting as his or her employer, or as an agent for an employer. 8 U.S.C.S 1324a(a)(1)(A)(Lexis 1997). Furthermore, it is unlawful to hire an individual for employment without complying with the employment requirements for every person hired such as was it listed on an I-9 form.

These sites are designed to employ illegal aliens. Employers hiring the day laborers are committing crimes openly. Never are I-9 forms filled out. Illegitimate contractors are not getting audited at these sites. Employers who hire illegal aliens are not paying into workers compensation insurance. When they get hurt, guess who pays the bill? - The law abiding business owner and taxpayer.

⁸ Newsday August 13,2002 Headway by Bart Jones

Local governments and Catholic Charity organizations seem eager to build these sites. Not one government agency will step up to the plate to investigate and enforce any State or federal labor, insurance, tax or immigration laws. The endorsement of hiring sites by local and federal governments is an attack on our laws and on every single law abiding employer.

Economics of illegal labor practices

The contractors and factory owners who disregard immigration laws and disregard labor and insurance laws result in a profitable but illegal advantage over legitimate business owners who play by the rules. In my last testimony in 2002 I prepared the following breakdown for a single person, reporting himself as a dependant. It compares the cost of a legitimate employer to that of a lawbreaking employer who pays \$500 per week off the books. (Updated for 2005)

| | |
|--|---------|
| Gross pay on the books would have to be \$670 to net \$500 because | |
| Social Security & Medicare | \$51.26 |
| Federal withholding | \$83.63 |
| N.Y State withholding | \$35.62 |
| N.Y State disability | \$00.60 |

This equals \$499 net pay

Now the legitimate employer also has additional costs. He has to match social security, Medicare and pay New York State workers compensation and N.Y. State unemployment insurance.

| | |
|--|----------|
| Social Security \$ Medicare | \$ 51.26 |
| Workers Comp (+/-) (5403 carpentry) | \$138.57 |
| N.Y. State unemployment (+/-) | \$ 5.06 |

The legitimate employer is now paying \$864.89 a week compared to \$500 net pay “off the books”. This represents a 73% higher cost to the honest law-abiding employer.

Add health insurance (employee only), which is \$119.53 a week
And 1 week vacation and 5 holidays averages out to \$37.86 a week.

The total cost a legitimate employer (providing minimum benefits) would be paying to equal that \$500 net pay a week now adds up to \$1022.28. This represents a 104% higher cost to the honest law-abiding employer.

The Federal Government loses \$83.63 in Federal withholding tax when employers pay “off the books”. However, in view of the fact that current federal accounting

standards add Social Security & Medicare contributions into the federal budget (not into a separate trust fund) we must add the \$51.26 employee contribution plus the \$51.26 employer contribution, totaling \$102.52 for the total Social Security & Medicare contribution. Add \$83.63 plus \$102.52 and the total cost to the Federal Government becomes \$186.15 – 37% of the \$500 net pay a law-abiding worker would receive.

Please note unemployment and workers compensation rates are variable. Carpentry code 5403 was used. Roofing code 5545 would increase the workers compensation premium from \$138.57 to \$292.38. Federal unemployment contributions were not included. Also note that only 1-week vacation and 5 holidays create a very low comparison. The actual cost to a legitimate employer would probably be higher.

Due to the unscrupulous employers that hire illegal aliens I do not know if Stylecraft Interiors can continue to survive. Illegal immigration lowers my wage and that of my employees too. The legal immigrants in my shop are very aware of this. Many of my employees waited 5 to 7 years to enter our country legally. They did the right thing. They obeyed our laws, and now people who broke the law are keeping down their wages. They wonder why our government refuses to enforce any laws when it comes to illegal immigrants.

Lack of enforcement leads to other laws being broken

There are many employers that can be at an unfair advantage if businesses choose to ignore all the laws that I have mentioned previously. Employers who hire from hiring sites, or off the streets are only interested in profit, and will not waste time training people who they hire for only a short time. They put everyone's life in danger.

1 - Consider the scaffolding that collapsed in Manhattan several years ago. Several illegal immigrants and innocent bystanders were killed and injured. The employer did not have proper permits, had paid someone else to take a licensing exam for him, and did not provide proper training⁹.

2 - Consider the floor that collapsed in Brooklyn. OSHA had just fined the employer for serious violations. One block away, a similar accident occurred in the prior year. In each instance, an illegal immigrant was killed.¹⁰

3 - In July, 2001, Long Island Newsday reporter Thomas Maier wrote a five-part series entitled "Death on the job-immigrants at risk" He found that New York has the nation's highest rate of immigrants killed in the workplace, with foreign-born workers accounting for three of every 10 deaths in a six year period¹¹. The reporter however did not break down the percentage of legal immigrants to illegal immigrants.

⁹ Newsday Long Island October 26 2001
Troubling Picture Of Accident Emerges and Queens Roofing Company Under Scrutiny
Daily News October 26 2001 Scaffold Disaster

¹⁰ The New York Times May 6,2001 Day Laborer's Death in Brooklyn collapse prompts investigation. By Jason Blair

¹¹ Newsday July 2001 Death on the job by Thomas Maier

One of his stories reported about two illegal immigrants from El Salvador- Fredi Canles and his uncle Gabriel Nunez, who both died in separate accidents at Omni Recycling in West Babylon N.Y. The East Farmingdale Fire Chief, James Napolitano, claims his ambulance crews have responded to 19 emergency calls from July 1999 through July 2001. The fire chief claims that the company hires mostly immigrants. Anthony Core, Omni's attorney, said that Omni never hires undocumented workers knowingly and that the plant has a "meticulous" procedure to avoid employing them, suggesting only that it is difficult to detect improper immigration documents.

If I am to believe the authenticity of this article and the statements made, I must assume that at least these two illegal immigrants who died gave false green cards and false social security numbers. Not only has the person broken our immigration law but they committed social security fraud too.

Our country has maintained rational laws for legal immigrants. If the law states that an illegal alien cannot work, I pray he will decide to enter our country legally and obtain legal employment. After all this is the law and Americans expect and trust our government with enforcing and obeying the law?

Is a Guest worker program a solution?

The push for a guest worker program is suggested as a solution for the immigration crisis this country faces. As a law abiding businessman, I see a guest worker program as an extension of what already exists. Many companies can do what Stylecraft did and sponsor immigrants legally today. The creation of another visa program will just add to our government's endless bureaucratic system. Understanding why a businessman hires an illegal alien should be the first step in deciding whether a guest worker program is needed.

The employer hires illegal aliens for the following reasons.

1. Cheap labor rate.
2. Does not deduct Federal and State income tax.
3. Does not to deduct Social Security.
4. Doe not pay into Worker comp or any other insurance program
5. Does not fill out any paperwork including an I-9.
6. Can easily exploit the person

If a guest worker program becomes reality, why on earth would an employer start obeying the law now? Will the government suddenly decide to enforce current laws? He can already sponsor an immigrant and obey the law. The incentive for hiring illegal aliens is so that the employer can skirt the law and not pay the necessary taxes and avoid any paper trail. A guest worker program that mandates that the employer obey the law will be

just like the visa programs we have now and the unethical employer will continue to hire illegal aliens off the street or at a day laborer hiring sites.

Conclusion

Jobs are the magnets that attract illegal immigrants to our country. When our government ignores interior enforcement, employers will continue to employ illegal immigrants until forced not to do so. With no penalty for hiring an illegal alien being imposed there is simply no reason to obey the law. This whole policy of non enforcement has created a state of anarchy. No longer do greedy employers have to obey tax, insurance or social security laws. This is the message sent by the governments to the employer.

I truly believe that the illegal immigration crisis can be solved within months if only the government would punish employers for breaking the law. No new legislation or guest worker program would be required...just enforce existing laws already on the books. If employers know that you will be fined and jailed for hiring an illegal alien, then they would not hire them and the illegal immigrant would leave on their own due to their inability to work.

Illegal immigrant labor hurts American workers and legal immigrant workers that respect our laws. Working Americans have seen their wages and their working conditions decline every time they compete with illegal immigrant labor.

Because of the lax enforcement from the government, honest employers are paying an unbearable price. In essence the lax enforcement is making a mockery of all those employers that are law-abiding. Lax enforcement continues to drive down the wages of legal immigrants and native born Americans. If my competitors are allowed to break the law, and hire low-wage illegal immigrant workers, they gain an unfair and illegal advantage over my company and depress the wages of my employees. My competitors will undercut my prices, and could possibly cause me and other employers who follow the law, to go out of business. Why should honest companies suffer for being honest and obeying all the Federal and State laws?