Written Testimony of

Dan Siciliano

Executive Director, Program in Law, Economics, and Business
Stanford Law School

Senior Research Fellow, Immigration Policy Center
American Immigration Law Foundation, Washington, DC

Before the

House Judiciary Committee
The Subcommittee for Immigration, Citizenship, Refugees, Border Security and International Law

March 30, 2007

Madame Chairman and members of the committee, thank you for the opportunity to appear before you today. My name is Dan Siciliano and I am the Executive Director of the Program in Law, Economics, and Business at Stanford Law School. I am also a senior research fellow with the Immigration Policy Center (IPC) at the American Immigration Law Foundation, a non-partisan, non-profit foundation focused on research and writing about the role of immigrants and immigration policy in the United States.

Today's hearing on U.S. immigration policy and its impact on the American economy comes at a critical time. Efforts are underway in the House and in the Senate to repair a system that is generally acknowledged to be broken. I suggest that any reform to immigration policy should be evaluated by considering how immigrants, both directly and indirectly positively impact our nation's economic prosperity. The evidence continues to mount in favor of the conclusion that immigration is good for economy, good for jobs, and a critical part of our nation's future prosperity.

Much of the public debate over immigration in the United States has focused on the rapid growth of the undocumented population over the past decade and a half. However, undocumented immigration is just one symptom of the larger disconnect between U.S. immigration policy and the reality of our economy's fundamental reliance on a diverse and, hopefully, growing pool of available labor. The U.S. economy has become increasingly reliant on immigrant workers to fill the growing number of less-skilled jobs for which a shrinking number of native-born workers are available and just as reliant on highly skilled immigrants to fill periodic or persistent talent gaps in our native born workforce. Yet current immigration policies offer very few legal avenues for workers in less-skilled occupations to enter the country and not enough flexibility of numbers for highly skilled workers to enter when the economy demonstrates sufficient demand. In part, undocumented immigration has been the predictable result of the U.S. immigration system's failure to respond effectively to actual labor demand.

Some critics of immigration point to economic arguments that the presence of immigrants, particularly undocumented immigrants, has broad negative consequences for the native-born workforce. Some incorrectly claim that immigration reduces employment levels and wages among native-born workers. This is generally not true. These arguments are largely the result of the over-simplification of a particular, and somewhat ill-applied, economic model used to measure the impact of immigration on the workforce. The cohort of critical studies are older, less up to date, largely ignore the role that immigrants play in expanding the economy and stimulating labor demand through their consumer purchases and investments and, most importantly, fail to incorporate the observed reality that businesses expand through the investment of more capital when the labor supply is not artificially constrained. Careful analysis and more recent studies add a dynamic component to the economic analysis of immigration by treating immigrants (both documented and undocumented) as real economic agents: earning, spending, and investing in the economy. Businesses, in turn, are considered dynamic as well: adjusting to the available resources and expanding accordingly.

Few argue with the notion that immigration provides many benefits to the United States. As a nation of immigrants, our culture, customs, and traditions reflect the diverse backgrounds of the millions of individuals who have made their way to America over time. But more than cultural benefits, recent economic analysis, including work by Giovanni Peri of the University of California, shows that the United States sees real economic benefits from immigration. Using one of the most comprehensive and up-to-date sets of data available, Professor Peri demonstrates conclusively that between 1990 and 2004 native-born wages increased an average of 1.8% as a consequence of immigration. Among the 9 in 10 native born workers with at least a high school diploma, wages increased by as much as 3.4%, depending on education.[1] In addition, overall annual growth in the Gross Domestic Product is approximately 0.1 percentage point higher as a result of immigration--a misleadingly small number that represents billions of dollars in economic output and, when compounded across a generation, represents a significant improvement in the standard of living of our children and grandchildren.

The positive impact of immigration results in part from the fact that immigrants help to fill growing gaps in our labor force. These gaps develop as aging native-born workers, in larger numbers than ever before, succeed in attaining higher levels of education and subsequently pursue higher-skill, higher-wage jobs. If the United States were to reform the immigration system to better address the demand for foreign-born labor, largely through ensuring that such workers were a part of the transparent and competitive "above ground" economy, the economic benefits of immigration could be even greater than what we have already experienced. Immigrants, native born workers, and their employers would likely benefit from a more predictable supply and demand environment and less time and resources would be spent addressing the dysfunction that is a result of a strong demand for a labor force that our laws do not accommodate.

Undocumented immigration is largely the result of two opposing forces: an immigration policy that significantly restricts the flow of labor and the economic reality of a changing native-born U.S. population. The extent to which the U.S. economy has become dependent on immigrant workers is evident in the labor force projections of the Bureau of Labor Statistics (BLS). According to BLS estimates, immigrants will account for about a quarter of labor force growth between 2002 and 2012. Given that roughly half of immigrants now arriving in the United States are undocumented, this means that 1 in 8 workers joining the U.S. labor force over the coming decade will be undocumented immigrants. Many of the jobs that would be harder to fill without this labor supply are already associated with immigrant labor: construction, agriculture, meatpacking, and hospitality. A growing number of immigrants, however, are also filling jobs in fields that are vitally important to serving America's aging population, such as home healthcare. This indicates that while policymakers debate the relative merits of various immigration reform proposals, immigration beyond current legal limits has *already* become an integral component of U.S. economic growth and will likely remain so for the foreseeable future.

The Impact of Immigrants on Native-Born Wages

Despite the critical role that immigration plays in preventing labor shortages that might impede economic growth, many critics of immigration argue that foreign-born workers reduce the wages of native-born workers with whom they compete for jobs. However, this argument relies on an overly simplistic understanding of labor supply and demand that fails to capture the true value that immigrants bring to the economy. If you are to accurately gauge the economic impact of immigration, the role that immigrants play in *creating* jobs is just as important as the role they play in *filling* jobs.

To analyze the impact of immigration on the U.S. economy as a whole, particularly in the studies relied upon in this debate, economists typically use one of two models: "static" or "dynamic." This, in its own right, is an oversimplification, but illustrates the key issue. The static model is the simplest and most frequently used by critics of immigration, yet it is the least realistic because it fails to account for the multi-dimensional role that immigrants play as workers, consumers, and entrepreneurs. The dynamic model, on the other hand, offers a more nuanced portrait of immigrants as economic actors. The net economic benefits of immigration are apparent in both models, but are larger and more consistently positive in the dynamic model.

Under the static model, economists assume that immigrant workers serve only to increase the labor supply, which results in slightly lower wages and thus higher profits for the owners of capital. In other words, if there are more workers competing for a job, an employer might pay a lower wage for that job and pocket the difference. For instance, under a popular version of the analysis that utilizes the static model, the 125 million native-born workers in the United States in 1997 would have earned an average of $13 per hour if not for the presence of immigrants. However, the 15 million immigrant workers who were actually in the country increased the labor force to 140 million and, under the static scenario, thereby lowered average wages by 3 percent to $12.60 per hour. Nonetheless, the net benefit to the U.S. economy of this decline in wages would have amounted to about $8 billion in added national income in 1997.

Despite the seeming simplicity of this logic (more workers competing for jobs results in lower wages for workers and higher profits for businesses), the assumptions underlying the static model bear too little resemblance to economic reality. Recent evidence supports the contention that the impact of immigration on wages is not as simple, or negative, as the static model would suggest. A 2004 study found that, despite the large influx of immigrants without a high-school diploma from 1980 to 2000, the wages of U.S.-born workers without a diploma relative to the wages of U.S.-born workers with a diploma "remained nearly constant."[2] More importantly, thanks in part to the work of Ottaviano and Peri, we now know that the dynamic response of small and medium sized businesses to this phenomena means that nearly all U.S. born workers, especially those with a high school education or better, have benefited from higher wages due to the presence of this low skilled, often undocumented, immigrant labor.[3]

The inability of the static model to explain this finding rests in part on the fact that the model incorrectly assumes immigrant and U.S.-born workers are perfectly interchangeable; that is, that they substitute for each other rather than complement each other in the labor force. Common sense alone suggests that this is not always the case. For example, less-skilled foreign-born construction laborers enhance the productivity of U.S.-born carpenters, plumbers, and electricians, but do not necessarily substitute for them. More broadly, the different educational and age profiles of foreign-born and native-born workers indicate that they often fill different niches in the labor market.

More importantly, the static model fails to account for the fact that immigrants spend money or invest capital, both of which create jobs and thus exert upward pressure on wages by increasing the demand for labor. This amounts to more than a minor omission given the scale of immigrant purchasing power and entrepreneurship. For instance, in 2004, consumer purchasing power totaled $686 billion among Latinos and $363 billion among Asians.[4] Given that roughly 44 percent of Latinos and 69 percent of Asians were foreign-born in that year, the buying power of immigrants reached into the hundreds of billions of dollars.

The dynamic model accounts for many of these additional economic contributions by immigrants. In the dynamic scenario, immigrant workers spend some of their wages on housing and consumer goods, which in turn increases the demand for labor by creating new jobs. Rising labor demand then increases wages relative to what would have existed if immigrant workers had not been present in the labor market. Businesses in turn invest more capital, expand, and hire more workers across the spectrum of skill levels. The result is a larger economy with higher employment.

The Impact of Immigrants on Native-Born Employment Levels

An IPC research report released in November of 2005 provides strong demographic evidence that the impact of immigrants on native-born employment levels is extremely limited or, in some cases, positive. The report examines the significant differences between the native-born workforce and the immigrant workforce and finds that immigrants are largely complementary to the native-born in education, age and skills profile. The complementary nature of immigrant labor makes it unlikely that immigrants are replacing a significant number of native-born workers, but are instead moving into positions that allow native-born workers to be more productive.

As the number of less-skilled jobs continues to grow, it will become increasingly difficult for employers to find native-born workers, especially younger workers, with the education levels that best correspond to those jobs. In this sense, immigrant workers are a vital complement to a native-born labor force that is growing older and better educated. On average, foreign-born workers tend to be younger than their native-born counterparts and a larger proportion have less formal education. In addition, immigrants participate in the labor force at a higher rate. As a result, immigrants provide a needed source of labor for the large and growing number of jobs that do not require as much formal education.

Immigrant Workers are More Likely to Have Less Formal Education

Immigrants comprise a disproportionate share of those workers who are willing to take less-skilled jobs with few or no educational requirements. In 2004, 53.3 percent of the foreign-born labor force age 25 and older had a high-school diploma or less education, compared to 37.8 percent of the native-born labor force. Immigrant workers were more than four times as likely as native workers to lack a high-school diploma. In contrast, immigrant workers were nearly as likely to have a four-year college degree or more education, amounting to more than 30 percent of both the native-born and foreign-born labor force.

In general, foreign-born workers are more likely to be found at either end of the educational spectrum, while most native-born workers fall somewhere in the middle. Roughly three-fifths of the native-born labor force in 2004 had either a high-school diploma or some college education short of a four-year degree, whereas three-fifths of the foreign-born labor force either did not have a high-school diploma or had at least a four-year college degree. Given their different educational backgrounds, most native-born workers are therefore not competing directly with foreign-born workers for the same types of jobs and, instead, supplying the critically diversified lesser-skilled and highly skilled workforce the economy requires.

Immigrant Workers Tend to be Younger

Immigrants also include a large number of younger workers, particularly in the less-skilled workforce. In 2004, 67 percent of the foreign-born labor force with a high-school diploma or less education was between 25 and 45 years old, as opposed to 52 percent of the native-born labor force with no more than a high-school diploma. While relative youth is not a requirement for many jobs, it is an asset in those less-skilled jobs that are physically demanding or dangerous.

Given the different age and educational profiles of foreign-born and native-born workers, it is not surprising that immigrants comprise a disproportionately large share of younger workers with little education. In 2004, immigrants made up more than a quarter of all workers 25–34 years old with a high-school diploma or less, and more than half of workers 25–34 years old without a high-school diploma. Employers searching for younger workers in less-skilled positions therefore often find that a large portion of prospective hires are foreign-born.

The Fiscal Costs of Immigration

Critics of immigration often focus on the fiscal costs of immigration instead of the economic benefits. These costs are often exacerbated by the undocumented status of many immigrants. An immigration policy that acknowledges the economic need for and subsequent benefits of immigration would significantly reduce these costs. To support the contention that immigrants are a net fiscal drain, critics cite studies indicating that immigrants contribute less per capita in tax revenue than they receive in benefits. However, these studies fail to acknowledge that this has more to do with low-wage employment than with native born (or lack of native born) status. Native-born workers in low-wage jobs similarly receive benefits in excess of the level of taxes paid. Indeed, entire categories of citizens, whether school age children or the elderly fall into this category. And yet, for carefully thought out reasons of public policy or future economic advantage (as in the case of educating children and inviting immigrants to participate in the economy), a short-term fiscal impact is a small price to pay for a long term economic advantage. This highlights the key concept that net tax revenue is not the same as net economic benefit. Generally accepted analysis reveals that the net economic benefit of immigration compensates for and exceeds any negative fiscal impact. The "fiscal only" analysis ignores the fact that in the absence of sufficient immigrant labor, certain low-wage jobs and other critical high-skilled jobs, might remain unfilled and regardless of the relative tax implications, this would hurt the economy and forego the opportunity for growth.

Conclusion

Immigration is a net positive for the U.S. economy and the presence of immigrants does not generally harm the native-born workforce. Studies that purport to demonstrate a negative impact on native-born wages and employment levels rely on an overly simplistic economic model of immigration and the economy. The most recent demographic analysis in conjunction with more sophisticated economic analysis reveals that most immigrants, including undocumented immigrants, do not compete directly with native-born workers for jobs. Instead, these immigrants provide a critical element of our nation's economic success and continued resiliency: a relatively young, willing, and dynamic supply of essential workers in areas such as healthcare, construction, retail, and agriculture. These are jobs that, once filled, enable our economy to continue the virtuous cycle of growth and job creation.

Indeed, this makes clear that the implication of the government's own BLS data cannot be ignored. To prosper, our economy desperately needs workers at both ends of the spectrum: young and less skilled as well as more educated and highly skilled. As a nation, we are in the midst of a slow-motion demographic cataclysm unlike any we have previously experienced. Immigration is not the only tool for seeing our way clear of the coming storm – but it is one without which we will not prosper. Without a continued and normalized flow of immigrant labor our workforce will fall well short of the numbers needed to meet the emerging demand for labor. The result will be an erosion of both the growth and increased standard of living that our citizenry has come to expect and to which future generations are entitled. Until the United States adopts a more articulated and thoughtful immigration policy that accommodates these economic realities, the insufficiency of current immigration and the problematic nature of undocumented immigration, in particular, will continue to hobble the economy.

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[1] Gianmarco I.P. Ottaviano & Giovanni Peri, *Rethinking the Gains from Immigration: Theory and Evidence from the U.S.* London: Centre for Economic Policy Research, September 2005. Updated: Peri, Giovanni, *Rethinking the Effects of Immigration on Wages: Data and Analysis from 1990 to 2004*, IPC Policy Paper, August 2006.
[2] David Card, *Is the New Immigration Really So Bad?* (CDP No 02/04). Centre for Research and Analysis of Migration, Department of Economics, University College London, April 2004, p. 23

[3] Gianmarco I.P. Ottaviano & Giovanni Peri, *Rethinking the Gains from Immigration: Theory and Evidence from the U.S.* London: Centre for Economic Policy Research, September 2005. Updated: Peri, Giovanni, *Rethinking the Effects of Immigration on Wages: Data and Analysis from 1990 to 2004*, IPC Policy Paper, August 2006.

[4] David Card, *Is the New Immigration Really So Bad?* (CDP No 02/04). Centre for Research and Analysis of Migration, Department of Economics, University College London, April 2004, p. 23

[5] Jeffrey M. Humphreys, "The multicultural economy 2004: America's minority buying power," *Georgia Business and Economic Conditions* 64(3), Third Quarter 2004 (Selig Center for Economic Growth, University of Georgia).