

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

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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 *unlike* 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.

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

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

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

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.

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).