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“Immigration and Its Contribution to Our Economic Strength”

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Throughout the history of the United States, the strength and dynamism of the U.S. economy has been positively impacted by new incoming waves of immigrants. Whether we cite immigrants such as Irenée Du Pont, Alexander Graham Bell, Andrew Carnegie, Levi Strauss or Joseph Pulitzer, or more recent examples such as Anthony Rossi (founder of Tropicana Foods), Vinod Khosla (co-founder of Sun Microsystems), Jerry Yang (co-founder of Yahoo) or Sergey Brin (co-founder of Google), immigrants have helped establish businesses that have created thousands of jobs in the United States. I am not even mentioning the dozens of American winners of the Nobel Prize who are immigrants. Over generations, millions of immigrant workers have also provided the necessary skills and labor to help U.S. businesses produce goods and services for U.S. consumption and export. Today, immigrants continue to contribute as entrepreneurs and employers, as workers, as innovators, as consumers and as tax payers.

Immigration policies have an impact on our economy. U.S. immigration policy should seek to make the economic impact of immigration as positive as possible. We need to modernize U.S. immigration policy to continue to help our economy grow and, by extension, create jobs in the future.

The economy can benefit not only from allowing new immigrants to come in to satisfy the employment needs of businesses, but also from providing legal status and citizenship to the currently 11 million undocumented workers already living in the U.S.

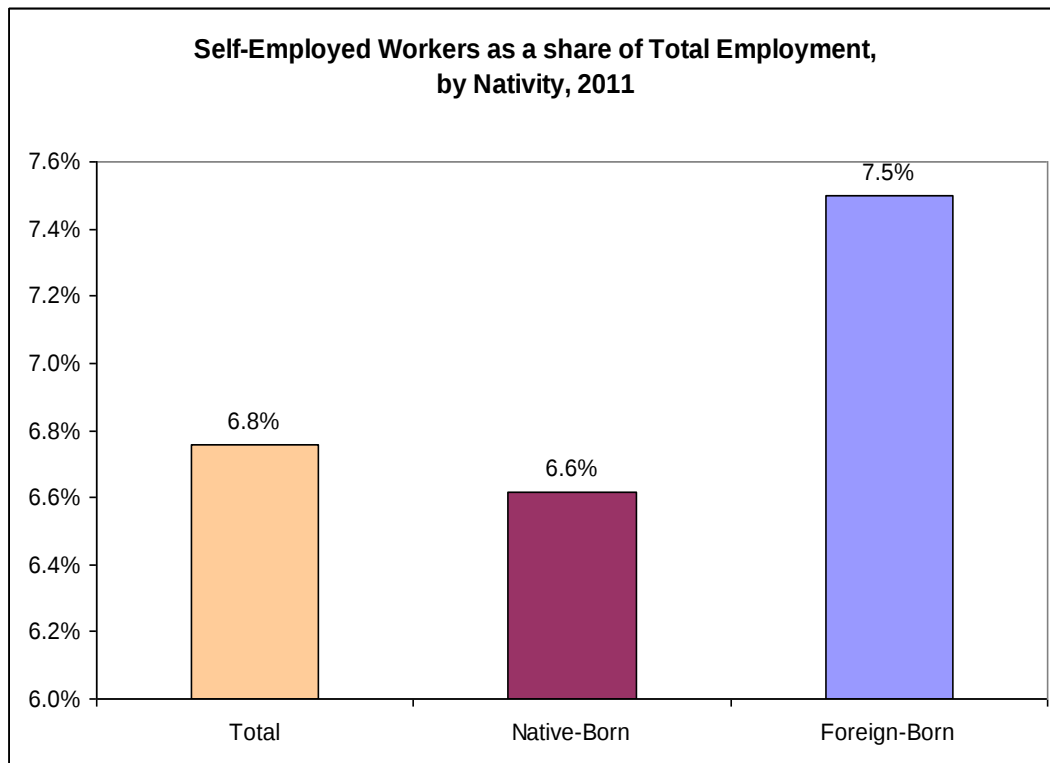
Benefits from Immigrant Entrepreneurship

Migrating and ‘making it’ in a new country takes resources, drive and hard work. It is, thus, not surprising that immigrants, and immigrants who stay rather than return to their home countries, tend to be more skilled than the average

person in their home country. In economic jargon, immigrants are generally a favorably selected group from their home countries.ⁱ

Immigrants who come to the U.S. and stay not only tend to be more skilled in terms of educational attainment, work experience and other measures of skill than their co-nationals who do not migrate, but they are also highly entrepreneurial even compared to their new compatriots.

This is supported by data from the Business Owners Survey which shows that immigrants are over-represented among business owners. While immigrants make up close to 13% of the population, they make up close to 17% of all new business owners. In addition, immigrants are more than twice as likely as non-immigrants to start a business, and 13% more likely to own a business than non-immigrants.ⁱⁱ Similarly, immigrants are also more likely to be self-employed and to create their own jobs than non-immigrants. Among the foreign-born 7.5% are self-employed, while among the native born only 6.6% are self-employed.ⁱⁱⁱ



This is important, because we know that new start-up businesses are important for the dynamism of the U.S. economy. It has been found that new businesses that survive tend to be more productive and have higher productivity

growth than more mature businesses.^{iv} In addition, start-ups and young businesses which grow beyond self-employment substantially contribute to job growth in the economy.^v

Moreover, immigrant businesses start with higher levels of start-up capital and tend to use family savings both to start-up and expand their businesses, meaning that immigrants are contributing their own sources of funding to create and grow their businesses. Immigrant businesses are also 60% more likely to export their goods and services and their exports make up a higher share of their total production, thus helping the U.S. to expand export markets. Importantly, immigrant businesses are also more likely to hire employees than non-immigrant business, which means that immigrant entrepreneurs are not only creating their own jobs but also contributing to overall job creation.^{vi} Immigrant small business owners alone hire 4.7 million people in the U.S.^{vii}

Immigrants are also over-represented among those starting U.S. public venture-backed companies. It is estimated that 25% of all U.S. public venture-backed companies and 40% of U.S. publicly traded ventured-backed companies in high tech manufacturing were started by immigrants between 1990 and 2005.^{viii} They also hire a large number of employees in these companies, including more than half of the workers in the high tech manufacturing sector.^{ix}

Benefits from Immigrant Labor and Innovation

Immigrants not only increase the size of the labor force (1 in 7 U.S. workers today is an immigrant), but also complement the skills of native-born workers and help to fill important skill gaps.

Skill gaps are a reality of the labor market at all times – that is, the skills possessed by workers do not always match the skill needs of employers. In March 2013, there were 18% of employers who reported been unable to fill their job openings and 36% which reported having few or no qualified applicants to fill a position.^x Given that it takes time to accumulate skills and train people, sometimes it is easier to seek workers from other countries to be able to immediately satisfy those skill needs, even in the longer term it makes sense to invest in those skills and train the native-born.

Immigrants indeed fill up important skill needs both among highly educated workers and less educated workers. Immigrants are over-represented among the most highly educated and among those with lower levels of education.

At the high end, immigrants represent 24% of U.S. scientists and 47% of U.S. engineers with bachelor or doctoral degrees, even though immigrants are 16% of the labor force.^{xi} Immigrants are also over-represented among those at the lower end of the education distribution. Among the foreign-born, 25.5% of those in the labor force have less than a high school degree compared to 5.3% among the native-born labor force.^{xii}

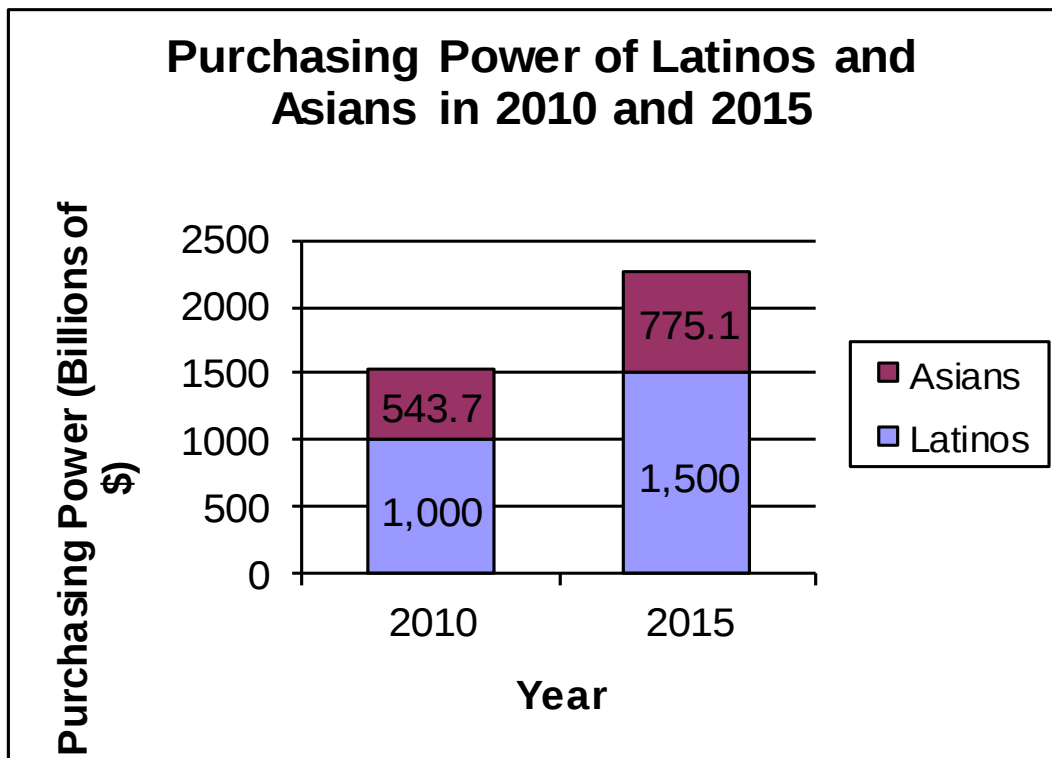
Because immigrants are over-represented both at the very high end and the very low end of the education distribution, this means that immigrants tend to do jobs and perform tasks at work which are different and complement the tasks of U.S. born workers. For instance, foreign born scientists and engineers tend to engage more heavily in innovative activities than their native counter-parts. The National Survey of College Graduates reports that immigrants patent at twice the rate of U.S. graduates. At the lower end of the skill distribution, the foreign-born also tend to engage in very different occupations and are more likely than the native-born to engage in computer and mathematical occupations, but also in production, transportation and material moving occupations; natural resource extraction, construction, maintenance; and service occupations – 15.8% of the foreign born vs. 11% of the native born work in production, transportation and material moving occupations; 13.5% of the foreign-born work in natural resource extraction, construction and maintenance vs. 8.5% among the native-born; and 24.5% of the foreign born work in service occupations vs. 16.4% among the native-born.^{xiii} In agriculture, the foreign-born make up 72% of the workforce, so that without the foreign labor force the total value of the agricultural sector would potentially fall by close to three-fourths.^{xiv}

While many worry that immigrants take jobs away from U.S. workers, recent evidence finds little displacement of U.S. workers from their jobs due to the arrival of immigrants, probably because immigrants tend to have different skills and enter different occupations.^{xv} In fact, recent research on the impact of immigrants on the U.S. labor market suggests positive impacts of immigration. A recent study finds that the rise in immigration between 1990 and 2004 increased the earnings of those with more than a high school degree by 0.7% by 2004.^{xvi} In my own work, I find no evidence of displacement even among native workers who may be more likely to perform similar work to immigrant workers. I find that a 10% increase in the share of Latino immigrants in fact increases the earnings of more educated Hispanic men by 1% and of more educated Hispanic women by 0.5%. In addition, we find no evidence that recent Latino immigrants hurt previous Latino immigrants by taking jobs away from them.^{xvii} The positive

impact of immigrants on more educated U.S. workers is likely due to the fact that immigrants tend to do jobs that free up time for the more educated, thus making them more productive.

Benefits from Immigrant Consumption

As immigrants create businesses and become employed, they also consume and buy products and services. It has been estimated that in 2010 the Latino purchasing power was \$1 trillion and that it will reach \$1.5 trillion by 2015. For Asians, the purchasing power was estimated at over \$500 billion in 2010 and is expected to reach \$775 billion by 2015.^{xviii} Increasing purchasing power for immigrants is good for them, but also for the economy as a whole. When immigrants spend, this money spreads throughout local and regional economies and has ripple effects well beyond the immigrant households.



A careful study of immigrants in Dawson County, Nebraska finds that the sudden and large influx of immigrant workers employed in an export meatpacking industry indeed boosted demand for local retail and increases retail wages as well as housing prices in comparison to other counties in NE, KS, IA and SD which did not experience the arrival of immigrants.^{xix} Similarly, an examination of the

arrival of immigrants in Miami during the 1980s after the Mariel Boatlift shows that immigrants increased retail spending and employment in Miami relative to 4 comparison cities.^{xx} Another recent study finds that immigrants consume a greater diversity of consumer goods, which allows producers to come up with new products and innovate in the marketplace.^{xxi}

Immigrants are also known to help specific markets. For instance, there is good evidence that immigration has helped the recovery of the housing market in the past. For example, a substantial influx of immigrants in the 1980's in Miami following the Mariel Boatlift boosted rental prices in Miami for several years after the immigration.^{xxii} Similarly, two recent studies found that U.S. immigration has boosted housing prices nationwide.^{xxiii} Given the ongoing recovery in the housing market, immigration could help sustain the necessary demand in housing to help sustain this recovery.

Fiscal Benefits of Immigration

As immigrants create businesses, collect earnings and consume, they become payers of corporate, payroll, income and sales taxes. Sales taxes are the most likely to be collected at the local and state levels. Moreover, as long as immigrants have legal status, they also pay corporate, payroll and income taxes. Even many undocumented workers, however, pay taxes. The IRS estimated that about 60% of undocumented immigrants paid taxes between 1996 and 2003, also estimating that undocumented immigrants paid \$50 billion in federal taxes during this period, including payroll and social security taxes. In addition, using a 50% payment rate, the Institute for Taxation and Economic Policy estimates that the undocumented pay \$11.2 billion in state and local taxes mostly from sales and property taxes.

The Social Security administration also estimates that before 2001 up to 50% of undocumented immigrants paid social security contributions, but that this share of undocumented immigrants paying social security taxes declined to 15% after September 11, 2001. By contrast, since undocumented workers are not entitled to government benefits, they do not claim any pensions, survivor or disability benefits, Medicare or Medicaid, TANF, or SNAP.

On the other hand, some worry that undocumented workers may still be a burden to state and local governments. However, according to CBO estimates spending by undocumented workers accounts for less than 5% of total state and local spending in education, healthcare and law enforcement.^{xxiv} In addition, as

explained above, immigrants pay sales taxes and contribute positively to local and state budgets.

Benefits from Providing Legal Status and Citizenship

As noted above, there is growing evidence that new immigrants encourage business creation, increase employment, innovation and consumption and contribute tax payments. By the same token, immigrants who are already here are most likely already generating many of these benefits to the U.S. economy. Yet, the case of undocumented immigrants is more nuanced, since some of the benefits may not be realized precisely because of the lack of legal status of this population.

The 11 million undocumented workers currently in the U.S. are already contributing as workers and consumers to the U.S. economy. For example, 8 out the 11 million undocumented immigrants already work and comprise 5.2% of the U.S workforce.^{xxv} However, it is difficult for those without legal status to establish new businesses or pay taxes (even though some do).

Moreover, based on past experience from the Immigration Reform and Control Act (IRCA) of 1986, we know that the wage penalty from not having legal status is between 14% and 24%.^{xxvi} Moreover, others have estimated that providing citizenship to legalized immigrants also increases their earnings by 10%.^{xxvii} Increased earnings could come because undocumented workers would have access to better jobs and greater labor protections, would have greater mobility, and would be more willing to invest in training and education but also in new businesses.

Given the current immigration proposals, the increased earnings from providing legal status to the currently 11 million undocumented workers would generate benefits by increasing consumption and creating ripple effects through the entire economy. A recent study conservatively estimates that these ripple effects would generate a cumulative increase in GDP of \$832 billion and would contribute on average 120,000 jobs per year over the next ten years.^{xxviii} In addition, I estimate that the additional taxes from legalization to \$677 billion over the next ten years once taking into account increased taxes from increased income by those already paying taxes and increased taxes by the undocumented who are not currently paying taxes. Moreover, given that the current proposal does not provide a path to citizenship until 13 years from now, this newly legalized population would not have access to benefits from Federal programs. Instead, the legalized population would contribute to the Medicare and Social Security Trust

Funds without causing additional expenditures to these programs over the next decade.

Conclusion

One major fear about immigration is that immigrants take jobs away from U.S. workers and lower their wages. However, recent evidence points in the opposite direction. Since immigrants have different skills and tend to do different occupations, they complement U.S. workers and make them more productive. Moreover, immigrants are more likely to create their own jobs either by becoming self-employed or starting up their own businesses. Immigrants not only create their own jobs but as business owners create jobs for U.S. workers.

Another major fear about immigration is that immigrants impose a fiscal burden on local and state economies and even at the federal level. Yet, the evidence here also points towards immigrants helping to ease fiscal problems. Not only is the economy likely to grow as a result of immigrant innovation and entrepreneurship in the longer term, but also in the short term due to increased consumption by immigrants. Moreover, since it is the lack of legal status which keeps immigrant tax payments low, providing legal status to the currently undocumented and allowing new immigrants to come legally into the country can only increase tax contributions by the immigrant population.

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- ⁱ For a survey of the evidence on favorable selection of immigrants see Chiswick, Barry. 2000. "Are Immigrants Favorably Self-Selected? An Economic Analysis," in Caroline Brettell and James Hollifield, eds., *Migration Theory: Talking Across the Disciplines*, Chapter 3. New York: Routledge. Favorable selection is stronger among stayers than return migrants, when migration costs are higher, and when inequality in the U.S. compared to the country of origin is greater. By contrast, favorable selectivity is less among refugees and short-term migrants.
- ⁱⁱ Fairlie, Robert. "Immigrant Entrepreneurs and Small Business Owners, and their Access to Financial Capital," May 2012. SBA Contract No. SBAHQ-10-R-0009.
- ⁱⁱⁱ Own calculations from the current Population Survey for 2011.
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- ^{vi} Fairlie, Robert. "Immigrant Entrepreneurs and Small Business Owners, and their Access to Financial Capital," May 2012. SBA Contract No. SBAHQ-10-R-0009.
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- ^{viii} These include companies such as Intel, Google, Yahoo, and eBay.
- ^{ix} Anderson, Stuart and Michaela Platzer. 2012. *American made: The Impact of Immigrant Entrepreneurs and professional on U.S. Competitiveness*. Arlington, VA: National Venture Capital Association.
- ^x Dunkelberg, William and Holly Wage. 2013. "NIFB Small Business Trends," NIFB, April.
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- ^{xxiii} See Saiz, Albert. 2007. "Immigration and Housing Rents in American Cities," *Journal of Urban Economics*, 61(2): 345-371.
- ^{xxiv} Congressional Budget Office. 2007. *The Impact of Unauthorized Immigrants on the budgets of State and Local Governments*. CBO Paper, December.

^{xxv} Passell, Jeffrey and D’Vera Cohn. 2010. *Unauthorized Immigrant Population: National and State Trends*. Washington, D.C.: Pew Hispanic Center.

^{xxvi} See Kossoudji, Sherrie and Deborah Cobb-Clark. 2002. “Coming out of the Shadows: Learning about Legal Status and Wages from the Legalized Population,” *Journal of Labor Economics*, 20(3): 598-628.

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