



**AMERICANS
for TAX REFORM**

**Written Testimony of Grover Norquist
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**Before the United States Congress
Joint Economic Committee**

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Chairman Brady, Vice Chairman Klobuchar, and Members of the Committee, I thank you for the opportunity to testify before you today. I have been asked to speak about immigration and its contribution to America's economic strength. This is an important discussion, as immigration is a key driver of economic growth. As such, concern for our country's economic well-being is the primary catalyst for the current push for comprehensive immigration reform.

America's status as the leader of the free world is dependent on its economic prowess. And its strong economy depends on a vibrant, productive, and growing labor force. As native birth rates have fallen below replacement levels, we rely on an infusion of foreign-born workers to supplement our workforce and allow our economy to continue to grow.

This is what sets us apart from countries like Japan, once an economic juggernaut but now in the throes of multiple "lost decades". Japanese families are not having enough children, nor is the country allowing enough foreign talent to immigrate and make up for its demographic shortcomings. America's historical openness to immigration will help prevent a slide like Japan's, but only if we modernize our immigration system to provide for more of the merit-based, growth-driven immigration that our economy demands.

In addition to making us more competitive globally, immigration makes native-born Americans more prosperous. American workers and immigrants have mostly different skill sets because immigrants are likely to have different levels of education than native-born Americans – on both the low and high ends of the skills distribution. Because native-born Americans and immigrants exhibit different skill sets, they do not generally compete against each other in the labor market. And because they are not substitutes, immigrant workers do not decrease wages for the vast majority of Americans. This complementary relationship between immigrants and native-born workers increases overall production, rather than fostering direct competition.

There are some who ignore these economic benefits and focus solely on immigration's fiscal costs. I share concerns about the growth of the welfare state. But to me it is clear that our entitlement problem exists regardless of immigration levels. Many in Congress have been consistent and unwavering in their efforts to reduce our unsustainable obligations and reform our entitlement system – and I applaud those efforts. Succeeding in that fight is imperative to the fiscal health of our nation, regardless of the number of immigrants we allow into the country.

Mr. Chairman, people are an asset, not a liability. To argue that more immigrants reduce our quality of life and hurt our economy is to argue that higher birth rates have the same negative effect. It is an argument in favor of more abortion and sterilization, shorter life spans, and a greater number of traffic fatalities. I favor a larger, more productive America instead of the insular stagnation of many of our former global competitors. Only with a sensible legal immigration system will we continue as the world's pre-eminent economic and cultural power.

Openness to Immigration Makes Us Globally Competitive

Countries that promote free labor markets and embrace the inflow of immigrant workers are far richer than those that are hostile to immigration. In terms of per capita income adjusted through purchasing power parity, the 25 richest countries in the world have an average foreign-born population of 22.5 percent. This includes countries like the United States (12.8 percent foreign-born), Hong Kong (42.6 percent), Australia (19.9 percent), and Switzerland (22.9 percent).¹

Conversely, countries with the lowest foreign-born population levels are also some of the world's poorest. These include countries with closed labor markets and heavy government intrusion and protectionism, like North Korea (0.2 percent foreign-born), Iran (2.9 percent), Honduras (0.4 percent), and Venezuela (3.7 percent).²

Japan presents an instructive case of the perils of a low birthrate and closed borders. In 1980, it was widely assumed that Japan would inevitably surpass the United States as the world's one true economic superpower. Three decades later, Japan's economy has stagnated, its debt-to-GDP ratio is the highest in the industrialized world, and the country is facing a demographic disaster of historical proportions, due in large part to a combination of a low birth rate and hostility to immigration.

Japan's birth rate is the fifth-lowest in the world³, and only 1.6 percent of its population is foreign-born, due to the country's infamously onerous immigration policies. The result is an economy that is unable to replenish its dwindling supply of workers. Japan is experiencing a demographic crisis wherein the number of citizens over the age of 65 will swell from 23 percent to 39 percent by 2050, and the working-age population – those supporting children and the elderly – will decline from 64 percent to 51 percent over the same time period (See Figure 2.3, below).⁴

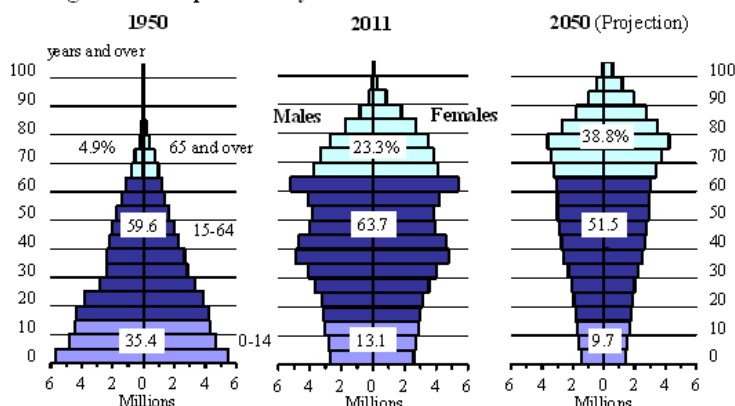
¹ Data compiled from the World Bank. <http://databank.worldbank.org/data/home.aspx>.

² *Ibid.*

³ Central Intelligence Agency, *The World Factbook*. <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2054rank.html>

⁴ Statistics Bureau, Director-General for Policy Planning of Japan. *Statistical Handbook of Japan*, 2012.

Figure 2.3
Changes in the Population Pyramid



Source: Statistics Bureau, MIC; Ministry of Health, Labour and Welfare.

We have seen the devastating economic impact of rejecting immigrant workers within our own borders, as well. When the Legal Arizona Workers Act (LAWA) and SB1070 became law in 2008 and 2010 respectively, approximately 200,000 unauthorized immigrants left the state decreasing the population of unauthorized immigrants by 35.7 percent from about 560,000 in 2008 to 360,000 in 2011.⁵ Employment in the industries vacated by unauthorized did not recover after they left as Americans did not fill the jobs left by those immigrants. The immigrants left and they took the jobs with them.

The neighboring states of California and New Mexico also experienced a dip in construction and agricultural employment, two industries where unauthorized immigrants were heavily concentrated across the Southwest, but the dip in Arizona was deeper and did not recover after unauthorized immigrants left those jobs. For agriculture, all agricultural employment fell by -8.68 percent from July, 2007 to September, 2011 while in California it increased by 2.13 percent and in New Mexico by 6.19 percent.⁶ For the same dates, employment in crop production fell by -15.61% and while it increased in California and New Mexico by 1.58% and 1.96%, respectively.⁷ The change in construction employment from July, 2007 to September, 2011 in Arizona was -50.25%. In California and New Mexico it was -36.89%.⁸

Related to construction employment, Phoenix had the second greatest housing price decline of any metropolitan statistical area from April, 2006 to April, 2012 according to the Case-Shiller Home Price Index composite.⁹ The average over that time was a decline of -32.91% but Phoenix had a 51.29% decline – only Las Vegas' boom/bust gambling based economy did worse.¹⁰ Although the entire country was in a residential real-estate price decline due to poor federal housing policies and the bursting of a bubble, forcing 200,000 consumers of real-estate out of Arizona, mostly from the Phoenix area, at that time exacerbated the decline.

⁵ Alex Nowrasteh, "The Economic Case Against Arizona's Immigration Laws," Cato Institute Policy Analysis No. 709, p.p. 2-3, <http://www.cato.org/sites/cato.org/files/pubs/pdf/PA709.pdf>.

⁶ *Ibid.* p. 7.

⁷ *Ibid.* p. 8.

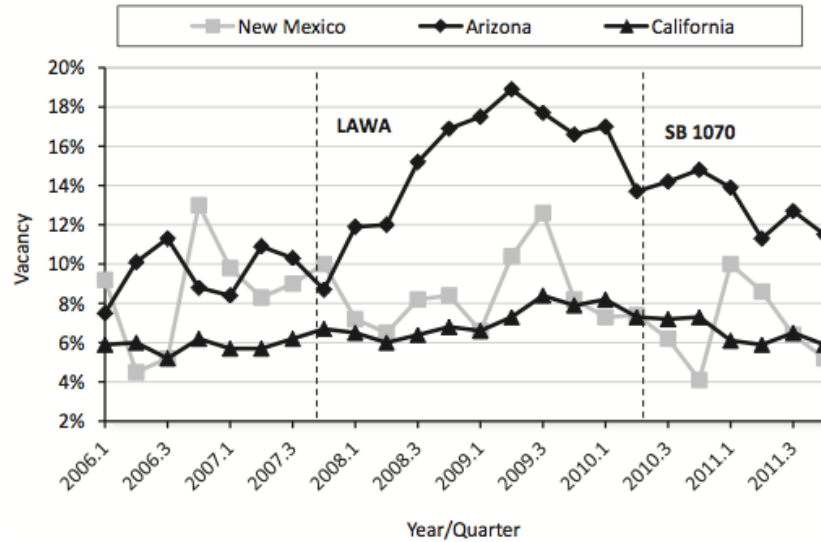
⁸ *Ibid.* p. 5.

⁹ *Ibid.* p. 13.

¹⁰ *Ibid.* p. 13.

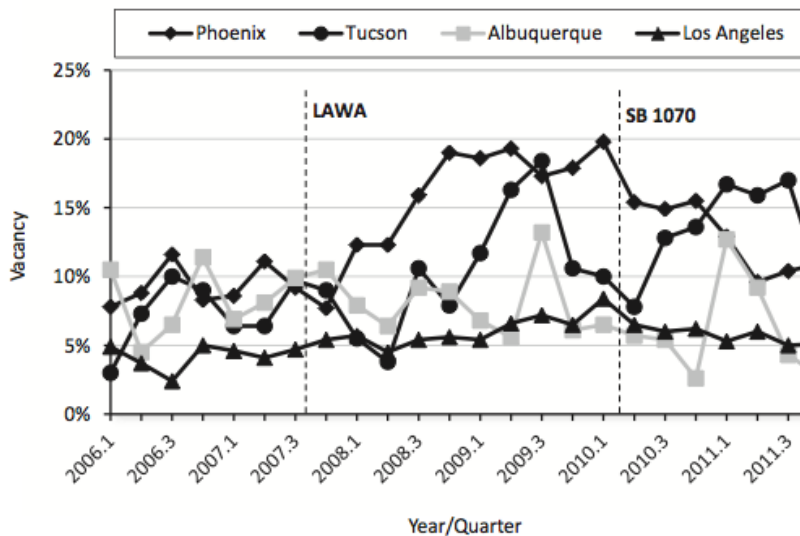
As evidence of that, the state and metropolitan rental vacancy and homeowner vacancy rates shot up for Arizona and Phoenix compared to California, New Mexico, and other major cities in the Southwest.¹¹

Figure 7
State Rental Vacancy Rates



Source: U.S. Census, Quarterly Vacancy and Homeownership Rates by State and Metropolitan Statistical Area.

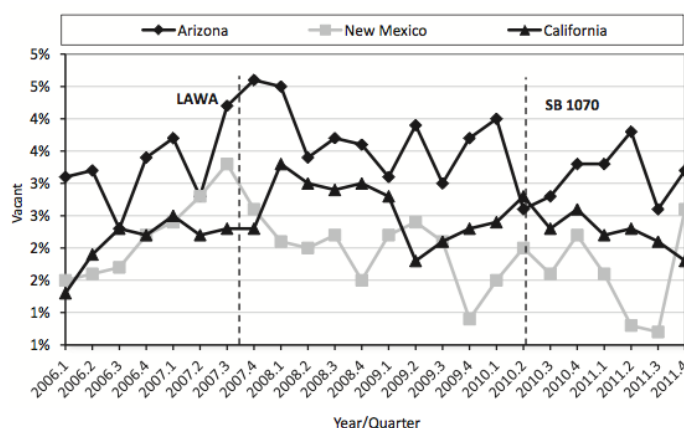
Figure 8
Rental Vacancy Rates by Metropolitan Area



Source: U.S. Census, Quarterly Vacancy and Homeownership Rates by State and Metropolitan Statistical Area.

¹¹ *Ibid.* pp. 14-15.

Figure 9
Homeowner Vacancy Rates



Source: U.S. Census, Quarterly Vacancy and Homeownership Rates by State and Metropolitan Statistical Area.

America's economic strength has endured because of its openness to foreign workers supplementing its workforce. If we repeat the mistakes of closed-bordered countries, and even some of our own states, we are destined for economic contraction.

Immigration Improves the Domestic Economy

Immigration boosts both the supply and demand side of the economy. On the supply side, more immigration literally increases the number of workers, entrepreneurs, investors, and entrepreneurs. Attracting more of these types of people pushes the production possibility frontier outward. The greater that curve is pushed out, the more goods and services can be produced domestically.

The economy's reaction to an increase in workers and entrepreneurs is to increase investment in capital goods in the long run.¹² Increased business creation rates, spurred by high levels of immigrant entrepreneurship (more than twice as high as native born Americans¹³), also increase the production of goods and services and stimulate demand for capital and land improvements. Simply put, immigrants simultaneously increase both the amount of production in the U.S. and our economy's productive capacity. As the late free-market economist Julian Simon wrote when countering the population control inclinations of radical environmentalists who saw people as a threat to prosperity, people are the "ultimate resource" and originators of all economic growth.¹⁴ People create, innovate, and build, producing a wealthier and better standard of living for us all. Immigration does not increase the number of people in the world, but it moves them from places where they are unproductive to those where they are productive, increasing the value of the ultimate resource.

¹² See Borjas and Katz, "The Evolution of the Mexican-Born Workforce in the United States," in *Mexican Immigration to the United States*, NBER Book, May 2007, Lewis, "Immigrants-Native Substitutability: The Role of Language Ability," NBER Working Paper 17609, forthcoming in David Card and Stephen Raphael, eds., Ottaviano and Peri, "Rethinking the Effects of Immigration on Wages," *Journal of the European Economic Association*, 2012. Peri and Sparber, "Task Specialization, Immigration, and Wages," *American Economic Journal: Applied Economic*, 2009, Peri and Sparber, "Highly-Educated Immigrants and Native Occupational Choice," Centre for Research and Analysis of Migration Discussion Paper Series No. 13/08, November, 2008.

¹³ Robert Fairlie, *Kauffman Index of Entrepreneurial Activity 1996-2012*, April 2013, pp. 10-11, http://www.kauffman.org/uploadedFiles/KIEA_2013_report.pdf.

¹⁴ Julian L. Simon, *The Ultimate Resource 2*. Princeton University Press, 1998.

Immigrants are not just producers, but they also boost aggregate demand. They consume goods and services like the rest of us, increasing demand that in turn incentivizes businesses to increase production. When immigrants abandon areas, we see the collapse of local economies. This is evident in the collapse of the Arizona housing market, as referenced earlier in my testimony, and in the devastation of Georgia's agriculture industry after the state passed an anti-immigration law in 2011, which led to a massive outflow of farm labor and \$140 million in foregone agriculture profits.¹⁵

Across America, an immigrant inflow into a city equal to 1 percent of a city's population causes a citywide increase in rents and housing prices by about 1 percent.¹⁶ When that inflow is unexpected and happens suddenly, the increase in rents from the same sized flow can be as high as 3.75 percent.¹⁷ Americans own the vast majority of all real estate in the U.S. so those increases in land value accrue mostly to Americans in terms of higher asset prices.

We Have a Welfare Problem, Regardless of Immigration Levels

One of the most popular arguments against higher levels of immigration is that the associated entitlement costs will be massive. It is true that we have an entitlement problem in this country that desperately needs to be fixed. However, this has nothing to do with immigration. The American entitlement crisis exists regardless of past, present, and future immigration levels, and must be dealt with no matter the levels of inward migration we allow moving forward.

Retiree health costs are the primary driver of our entitlement debacle. According to the 2012 Medicare Trustees Report, the Medicare Part A trust fund will be completely bankrupt by 2024. The report states that the fund "has not met the Trustees' formal test of short-range financial adequacy since 2003," and that expenditures are projected to exceed income every year until the fund is extinguished next decade.¹⁸ The Trustees project total Medicare expenditures as a share of the economy to continue to skyrocket, from 3.7 percent of GDP in 2011 to between 6.7 percent and 10.4 percent of GDP by 2086. They note that "growth of this magnitude, if realized, would substantially increase the strain on the nation's workers, the economy, Medicare beneficiaries, and the national budget."¹⁹

This is because politicians have promised retirement benefits that the country cannot afford—and even taxes levied at European levels would not solve our problems, as proven by the current state of affairs in the Eurozone. According to the Urban Institute, a single American male earning an average wage in 2012 and retiring in 2030 will receive \$650,000 in lifetime Medicare and Social Security benefits while paying only \$494,000 in lifetime Medicare and Social Security taxes. A single female earning the same amount and retiring at the same time will draw \$717,000 in benefits while paying the same \$494,000 in taxes.²⁰

¹⁵ Benjamin Powell. *The Law of Unintended Consequences: Georgia's Immigration Law Backfires*. *Forbes*. May 17, 2012. <http://www.forbes.com/sites/realspin/2012/05/17/the-law-of-unintended-consequences-georgias-immigration-law-backfires/>

¹⁶ See Albert Saiz, "Immigration and Housing Rents in American Cities," *Journal of Urban Economics* Vol. 61, No. 2, March, 2007.

¹⁷ *Ibid.* p. 18.

¹⁸ *2012 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds*. Pages 5-6. April 23, 2012. <http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/ReportsTrustFunds/downloads/tr2012.pdf>.

¹⁹ *Ibid.* Page 8.

²⁰ C. Eugene Steuerle and Caleb Quakenbush, *Social Security and Medicare Taxes over a Lifetime*. October, 2012. <http://www.urban.org/UploadedPDF/412660-Social-Security-and-Medicare-Taxes-and-Benefits-Over-a-Lifetime.pdf>.

We must reduce health care costs and bring benefits more in line with reality in order to avoid the specter of a bankrupted Medicare trust fund in the next decade. This remains true regardless of immigration levels. Put succinctly: We have an entitlement problem, not an immigration problem.

S.744 and Economic Growth

The current immigration reform bill before the Senate, S.744, is predicated on many of the principles detailed above. By bringing millions of able workers out of the shadows, giving them access to greater employment opportunities, and requiring them to pay taxes, this legislation will spur economic growth. By facilitating a larger flow of future immigrant labor, both low-skilled and high-skilled, it allows for a demand-driven, merit-based approach to immigration, while freeing up law enforcement to prosecute human traffickers, drug smugglers, and other criminals. And it creates millions of new taxpayers, who will help keep America on sound fiscal footing where demographics are not currently in our favor.

I support legal immigration because I support free markets and private sector-led growth. And I am happy to support S.744 as a meaningful compromise that moves our country and its economy in the right direction.

Thank you for the opportunity to testify today.