



Testimony of

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Immigration and U.S. Immigration Policy: Medium-Term Fiscal Impacts and Long-term Fiscal Sustainability for the U.S. Budget

My testimony concerns the effects of immigration to the United States on the U.S. budget, a question that also requires a discussion of the effects of immigration on the economy and the earnings and taxes paid by workers.

Let me begin, therefore, by summarizing two major facts about immigration and the economy. First, it is widely accepted by economists that immigration increases U.S. productivity and contributes to overall economic growth. This effect is easy to understand: labor flows into relatively productive sectors, American businesses adjust to changes in the labor supply, and the economy produces more goods and services.¹ These general gains are amplified by the fact that immigrants self-select for economic productivity, resulting in high rates of immigrant entrepreneurship and workforce participation.² And economic benefits are further augmented by demographics, as immigrants are younger and healthier than natives.³

The second major effect of immigration on the U.S. economy is that immigration boosts real wages for about 90 percent of native-born workers.⁴ This finding is less intuitive, since we assume a larger

¹ Immigrants earned about \$530 billion dollars in 2003, about 5 percent of U.S. GDP; see White House Council of Economic Advisors, “Immigration’s Economic Impact” (Washington, DC: White House Council of Economic Advisors, 2007), http://www.whitehouse.gov/cea/cea_immigration_062007.pdf. Also see Jeffrey Humphreys “The Multicultural Economy 2008” (Athens, GA: University of Georgia Terry College of Business Selig Center for Economic Growth, 2008), http://media.terry.uga.edu/documents/selig/buying_power_2008.pdf; James P. Smith and Barry Edmonston, eds., *The New Americans: Economic, Demographic and Fiscal Effects of Immigration* (Washington, D.C.: National Academy Press, 1997).

² Immigrants were responsible for 25 percent of all high-tech start-ups and one-third of Silicon Valley start-ups during the technology boom of the 1990s; see Vivek Wadhwa, AnnaLee Saxenian, Ben Rissing, and Gary Gereffi, “America’s New Immigrant Entrepreneurs,” (Duke University Master of Engineering Management Program and UC Berkeley School of Information, 2007), http://people.ischool.berkeley.edu/~anno/Papers/Americas_new_immigrant_entrepreneurs_I.pdf. Immigrants also obtain patents at twice the rate of native-born Americans, with additional positive spillovers effects for co-ethnics and native workers in related fields; see Jennifer Hunt and Marjolaine Gauthier-Loiselle, “How Much Does Immigration Boost Innovation?” (NBER Working Paper No. W14312, 2008); William Kerr and William F. Lincoln, “The Supply Side of Innovation: H-1B Visa Reforms and U.S. Ethnic Invention” (Harvard Business School Entrepreneurial Management Working Paper No. 09-005, 2008).

³ Immigrants were responsible for 58 percent of population growth over 25 years from 1980 to 2005; see Jeffrey S. Passel and D’Vera Cohn, “U.S. Population Projections: 2005-2050” (Washington DC: Pew Hispanic Center, 2008), <http://pewhispanic.org/files/reports/85.pdf>. Low U.S. fertility makes immigration a key source of growth in the prime-age (25 to 55) labor force; see David Ellwood, *Grow Faster Together. Or Grow Slowly Apart. How Will America Work in the 21st Century?* (Washington, DC: The Aspen Institute, 2002), <http://www.pwib.org/downloads/GrowFast.pdf>. Immigrants also have lower disability and chronic disease rates; see Leighton Ku, “Health Insurance Coverage and Medical Expenditures of Immigrants and Native-Born Citizens in the United States,” *American Journal of Public Health* 99, no. 7 (2009): 1322-1328.

⁴ Immigration may cause a short-term reduction in native employment, but that within 7-10 years immigration boosts native employment and native earnings; see Giovanni Peri, “The Impact of Immigrants in Recession and Economic Expansion” (Washington, DC: Migration Policy Institute, 2010), <http://www.migrationpolicy.org/pubs/Peri-June2010.pdf>. About 90 percent of U.S. workers experience wage increases as a result of immigration, with wage increase of \$30-80 billion/year (0.7 – 3.4 percent) for native workers with at least a high school degree. Only natives without a high school degree, about 10 percent of the workforce, experience wage declines, and they are more modest (about 1.1 percent). See Giovanni Peri and Chad Sparber, “Task Specialization, Comparative Advantages, and the Effects of Immigration on Wages” (NBER Working Paper 13389, 2007); Pia M. Orrenius and Madeline Zavodny, “Does immigration affect wages? A look at occupation-level evidence” (IZA Discussion Paper No. 2481, 2006); White

workforce holds down wages. But wages increase because immigrants complement native workers' skill profiles, allowing U.S. workers to specialize in higher-paying work; and because immigrant spending and investment mean that about one additional new job is created for each immigrant added to the economy.⁵

What do these economic facts mean for the work of the National Commission on Fiscal Responsibility and Reform? Narrowly defined, immigration is not a problem for the U.S. deficit because immigrants pay more in taxes than they receive in services. Even though many immigrants have low incomes, all immigrants pay taxes, including in most cases federal payroll taxes;⁶ and adult immigrants are ineligible for most federal welfare and other spending programs until they have had their green cards for at least five years. Unauthorized immigrants are ineligible for all federal cash welfare benefits.

A serious analysis of the fiscal impact of immigration and immigration policy also requires that we ask two additional questions. First, how can we maximize the economic gains from immigration to take full advantage of these fiscal benefits?

Existing immigration boosts U.S. economic growth *despite* what is a poorly designed and out-of-date employment-based immigration policy. U.S. policy is not designed to attract the best and brightest workers or to ensure that employers have access to needed workers; and many of our policies work directly against these goals. Maximizing the economic benefits of immigration would require an immigration policy that explicitly facilitates the inflow of the most productive immigrants and of immigrants who best complement native-born workers.⁷

We also should increase the proportion of immigrants workers in legal status. For decades, U.S. policy has tolerated, and in some ways even encouraged, unauthorized employment. Yet unauthorized workers are more likely to work off the books, they are less able to take advantage of their existing skills to maximize their earning potential, and they suffer a wage penalty compared to

House Council of Economic Advisors, "Immigration's Economic Impact." In addition, David Card has concluded that immigration accounted for just 5 percent of the increase in inequality in the United States between 1980 and 2000; see David Card, "Immigration and Inequality" (IZA Discussion Paper 07/09, 2009).

⁵ The finding of a one-to-one relationship between immigration and job creation extends to at least 14 different countries, in research dating back to the mid-1990s; see Francesc Ortega and Giovanni Peri, "The Causes and Effects of International Migrations: Evidence from OECD Countries 1980-2005" (National Bureau of Economic Research Working Paper No. 14833, 2009).

⁶ The Internal Revenue Service estimates that *unauthorized* immigrants paid almost \$50 billion in federal taxes between 1996-2003; and the Social Security Administration (SSA) estimates that they paid another \$41 billion in Social Security and Medicare taxes during this period. See Statement of the Honorable Mark W. Everson, Commissioner, Internal Revenue Service, before the House Committee on Ways and Means, July 26, 2006, <http://waysandmeans.house.gov/hearings.asp?formmode=view&id=5171>; and Travis Loller, "Many Illegal Immigrants Pay Up at Tax Time," *USA Today*, April 11, 2008, http://www.usatoday.com/money/perfi/taxes/2008-04-10-immigrantstaxes_N.htm. Altogether, immigrant households and businesses paid approximately \$300 billion in federal, state, and local taxes in 2005; see Immigration Policy Center, "It's Tax Time: Immigrants and Taxes: Contributions to State and Federal Coffers" (Washington, DC: Immigration Policy Center, 2008), <http://immigrationpolicy.pairsite.com/sites/default/files/docs/Taxpayers04-08.pdf>.

⁷ In general, see Demetrios Papademetriou, Doris Meissner, Marc Rosenblum and Madeleine Sumption, "Harnessing the Advantages of Immigration for a 21-st Century Economy: A Standing Commission on Labor Markets, Economic Competitiveness and Immigration" (Washington DC: Migration Policy Institute, 2009); Demetrios Papademetriou, Doris Meissner, Marc Rosenblum and Madeleine Sumption, "Aligning Temporary Immigration Visas with US Labor Market Needs: The Case for Provisional Visas" (Washington DC: Migration Policy Institute, 2009).

workers with similar skills.⁸ The economic inefficiency—and lost tax revenues—from having workers in unauthorized status increases over time because being unauthorized is a barrier to higher education;⁹ and because unauthorized immigrants are shut out of most credit markets and discouraged from making long-term investments in their own human capital or as entrepreneurs.

The second broader question that this Commission should consider is how we can reduce discretionary spending on immigration enforcement. The U.S. system does a poor job of matching visa supply and demand, but the politics of immigration policy have made it far easier for lawmakers to support tough border enforcement and interior removal policies than to address the underlying causes of unauthorized migration. These political dynamics have produced substantial growth in U.S. migration control budgets; spending which by almost any measure has proven historically to be ineffective at reducing illegal immigration.¹⁰ To provide just a pair of statistics: spending on migration enforcement increased from about \$1 billion to over \$15 billion between 1990 and 2009, while the estimated number of unauthorized immigrants grew from less than 3 million to almost 12 million during the same period.¹¹

⁸ On average, unauthorized immigrants are paid 10 to 55 percent less than legal workers with similar skills and experience, depending on the industry and the study. See Julie A. Philips and Douglas S. Massey, “The New Labor Market: Immigrants and Wages after IRCA,”

Demography 36, no. 2 (May 1999): 233-246; Cynthia Bansak and Steven Raphael, “Immigration Reform and Earnings of Latino Workers: Do Employer Sanctions Cause Discrimination?,” *Industrial and Labor Relations Review*, 54, no. 2 (January 2001): 275-295; Jorge Durand, Douglas S. Massey and Emilio A. Parrado, “The New Era of Mexican Migration to the United States,” *Journal of American History* 86, no. 2 (September 1999), Chirag Mehta, Nik Theodore, Iliana Mora and Jennifer Wade, “Chicago’s Undocumented Immigrants: An Analysis of Wages, Working Conditions and Economic Contributions,” (Chicago: University of Illinois at Chicago Center for Urban Economic Development, February, 2002) http://www.uic.edu/cuppa/uicued/npublications/recent/undoc_full.pdf; Francisco L. Rivera-Batiz, “Undocumented Workers in the Labor Market: An Analysis of the Earnings of Legal and Illegal Mexican Immigrants in the United States,” *Journal of Population Economics* 12, no. 1 Special Issue on Illegal Migration (Feb 1999): pp. 91-116; Sherrie A. Kossoudji and Deborah A. Cobb-Clark, “Coming out of the Shadows: Learning about Legal Status and Wages from the Legalized Population,” *Journal of Labor Economics* 20, no. 3 (July 2002): pp. 598-628; Manuel Pastor, Justin Scoggins, Jennifer Tran, and Rhonda Ortiz, “the Economic Benefits of Immigrant Authorization in California,” (Los Angeles: University of Southern California Center for the Study of Immigrant Integration, 2010).

⁹ By one estimate, there were over 360,000 existing unauthorized high school graduates and over 700,000 unauthorized school-aged youth in 2007; see Roberto G. Gonzales, “Wasted Talent and Broken Dreams: The Lost Potential of Undocumented Students,” *Immigration Policy Center In Focus* 5, 13 (Washington, DC: Immigration Policy Center, 2007).

¹⁰ While apprehensions, considered a proxy for new illegal inflows, have fallen sharply during the current economic downturn, they remained almost flat at around 1.3 million per year between 1986 and 2006, even as the number of Border Patrol agents quadrupled during this period; see Immigration and Naturalization Service (INS) and Department of Homeland Security (DHS), *Yearbook of Immigration Statistics*, various years, <http://www.dhs.gov/files/statistics/publications/#5>. And in data collected within immigrant-sending communities in Mexico, while a third of illegal crossers were apprehended, at least 93 percent were eventually able to enter the United States during their most recent trip to the border; see Wayne A. Cornelius, “Evaluating Recent U.S. Immigration Control Policy: What Mexican Migrants Can Tell Us,” in Mechthild Baumann, ed., *The Control of Irregular Migration and Its Impacts on Immigrants* (Berlin: Institut für Migrations und Sicherheitsstudien, forthcoming 2010). Also see Wayne A. Cornelius and Idean Salehyan, “Does Border Enforcement Deter Unauthorized Immigration? The Case of Mexican Migration to the United States of America,” *Regulation & Governance* 1 (2007): 139-153; Gordon H. Hanson, “The Economics and Policy of Illegal Immigration in the United States,” (Washington, DC: Migration Policy Institute, 2010), <http://www.migrationpolicy.org/pubs/Hanson-Dec09.pdf>.

¹¹ For more on enforcement budgets, see Doris Meissner and Donald Kerwin, *DHS and Immigration: Taking Stock and Correcting Course* (Washington, DC: Migration Policy Institute, 2009), http://www.migrationpolicy.org/pubs/DHS_Feb09.pdf; for estimates of the unauthorized population see Jeffrey S.

As this Commission considers recommendations for short-term and long-term deficit reduction, the ongoing U.S. immigration debate therefore should be an important focus of your attention, especially because the debate focuses on two well-defined positions, with starkly different fiscal implications. One view holds that the enforcement strategies implemented in the last quarter century have been the right approach in principle, and that we simply should do a better job of enforcing existing laws. Taken at face value, this “enforcement-first” approach would require substantial additional spending on border and interior enforcement to shut down illegal inflows and remove millions of existing unauthorized immigrants—all with uncertain and possibly damaging effects on economic growth.¹²

The alternative approach is comprehensive immigration reform, which combines migration enforcement with a legalization program for most unauthorized immigrants, and visa reform to better match the supply and demand of foreign workers and immigrants brought through the family-based visa system in the future. Comprehensive reform is the more fiscally sound approach for at least four reasons:

- Legalization of existing unauthorized immigrants would increase their families’ earning power,¹³ spending,¹⁴ and tax payments, producing an overall stimulative effect and increasing tax revenues.
- In contrast with enforcement-first, legalization would pay for itself as fines and processing fees would cover the costs of the program. These increased tax revenues and fees are why the Congressional Budget Office (CBO) found that the proposed comprehensive

Passel and D’Vera Cohn, 2009, *A Portrait of Unauthorized Immigrants in the United States*, Washington, DC: Pew Hispanic Center, <http://pewhispanic.org/files/reports/107.pdf>.

¹² One recent study estimates that the direct costs of an enforcement-only approach would be \$285 billion; see Marshall Fitz, Gebe Martinez, and Madura Wijewardena, “The Costs of Mass Deportation Impractical, Expensive, and Ineffective,” (Washington, DC: Center for American Progress, 2010), http://www.americanprogress.org/issues/2010/03/pdf/cost_of_deportation.pdf.

¹³ Wages increased by 11-20 percent for legalized workers in the years after the 1986 Immigration Reform and Control Act (IRCA), though documenting these wage gains is difficult because IRCA’s flawed employer sanctions regime also produced downward pressure on low-skilled wages, especially for Latino workers. See Francisco L. Rivera-Batiz, “Undocumented Workers in the Labor Market: An Analysis of the Earnings of Legal and Illegal Mexican Immigrants in the United States,” *Journal of Population Economics* 12, 1 (Feb. 1999), pp. 91-116; Sabrina Isé and Jeffrey M. Perloff, “Legal Status and Earnings of Agricultural Workers,” *American Journal of Agricultural Economics* 77, 2 (May 1995): 375-386; Kossoudji and Deborah A. Cobb-Clark, “Coming out of the Shadows.” A new legalization program may produce greater wage gains because there is some evidence that the wage penalty for unauthorized immigrants is higher today than it was prior to IRCA, and because legalization likely would be combined with an expanded and improved electronic eligibility verification system, minimizing defensive hiring.

¹⁴ Legalization would give unauthorized immigrants greater access to U.S. credit markets, and increase immigrant home ownership. Migrants have lower home ownership rates than natives (47 percent versus 68 percent), but migrant are three times more likely than natives to rank home ownership as a top economic priority; see Andy Schoenholtz, Kristin Stanton and Natasha Shulman, “Reaching the Immigrant Market and Creating Homeownership Opportunities for New Americans: A Strategic Business Planning Workbook Fannie Mae Foundation and Georgetown University, 2003. According to one estimate, legalization would allow over 200,000 currently-unauthorizedimmigrant householders to become homeowners, representing an important boost to a struggling market; see Rob Paral and Associates. “The Potential for New Latino Homeownership Among Undocumented Latino Immigrants,” (July 2006) http://www.nahrep.org/includes/NAHREP_Study.pdf.

immigration reform bill passed by the Senate in 2006 would have increased net federal revenues by about \$65 billion dollars over ten years.¹⁵

- Comprehensive immigration reform would also promote economic growth, with higher earnings and tax revenues throughout the U.S. economy, by ensuring that the visa system is designed to attract needed workers and to maximize economic gains from migration.
- Perhaps most importantly from a fiscal perspective, comprehensive reform would create the conditions for effective enforcement at a realistic cost. While the system will always require investment in enforcement, legalization would take hundreds of thousands of people out of the costly detention and removal system, and visa reform would give prospective immigrants real incentives to wait their turn, easing the burden on border and interior enforcement in the future.

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¹⁵ Congressional Budget Office (CBO), “Cost Estimate: S.2611 Comprehensive Immigration Reform Act of 2006,” (Washington, DC: Congressional Budget Office, 2006), <http://www.cbo.gov/ftpdocs/75xx/doc7501/s2611spass.pdf>.