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IMMIGRATION AND ITS CONTRIBUTION TO OUR ECONOMIC STRENGTH PART I

HEARING

BEFORE THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

ONE HUNDRED THIRTEENTH CONGRESS

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IMMIGRATION AND ITS CONTRIBUTION TO OUR ECONOMIC STRENGTH
PART I

TUESDAY, MAY 7, 2013

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The committee met, pursuant to call, at 9:30 a.m. in Room 562 of the Dirksen Senate Office Building, the Honorable Amy Klobuchar, Vice Chair, presiding.

Representatives present: Brady, Duffy, Paulsen, Hanna, Sanchez, Cummings, and Delaney.

Senators present: Klobuchar, Casey, Warner, Murphy, Heinrich, Coats, Lee, and Wicker.

Staff present: Corey Astill, Ted Boll, Gail Cohen, Connie Foster, Niles Godes, Paige Hallen, Colleen Healy, J. D. Mateus, Patrick Miller, Robert O'Quinn, and Brian Phillips.

OPENING STATEMENT OF HON. AMY KLOBUCHAR, VICE CHAIR, A U.S. SENATOR FROM MINNESOTA

Vice Chair Klobuchar. Good morning, everyone. I would like to thank you for being here today for this incredibly important hearing and conversation about immigration reform.

I would especially like to thank our distinguished panel of witnesses. With the House and Senate schedules, Representative Brady and I have worked out a plan for this hearing that we think will work. We are actually bifurcating it, having this morning's hearing and then having our two remaining witnesses tomorrow afternoon. And so I thank him for accommodating this hearing with his busy schedule. He is going to be chairing a subcommittee and will have to leave a little early, but we have a number of Members here and I want to thank you for working your schedules around it.

Today's hearing comes at a critical moment. Our economy is improving, but still fragile. The private sector is adding jobs but not quite at the pace we would like, and the housing market is getting stronger. But more needs to be done, and comprehensive immigration reform is one of the pillars which will help us to build this strong economy.

That is why we have scheduled this hearing. We are going to focus today on immigration's contribution to our economic strength and how we can make it work better.

We all know that our current immigration system is broken and that we need to work together in a bipartisan way to get comprehensive reform done.

As a member of the Senate Judiciary Committee, I look forward to marking up in the coming weeks the proposal that is before us in the Senate. There is a large and diverse coalition supporting immigration reform in this country: business leaders, law enforcement, religious leaders, farmers, labor unions, people from all across the political spectrum, as you can see at our table today, as we stretch from the left to the right, in terms of the witnesses that we have with us today.

Dr. Adriana Kugler is a Professor at Georgetown Public Policy Institute and is Co-Director of the International Summer Institute on Policy Evaluation. She served as Chief Economist of the U.S. Department of Labor in 2011 and 2012. She is a Research Associate at the National Bureau of Economic Research.

Mr. Grover Norquist is the President of Americans For Tax Reform, an organization which he founded in 1985 that works to limit the size and cost of government. Previously, Mr. Norquist served as economist and chief speech writer at the U.S. Chamber of Commerce, and as Executive Director at the National Taxpayers Union.

I don't know how many times a Democratic Senator has asked you to testify, Mr. Norquist, but I did. And I think it is a tribute to the broad support that we see for immigration reform.

This is not going to be easy or simple, but this reform is vital to our country. We need to establish a reasonable pathway to citizenship, continue the progress that we are making on the border, and make sure our companies are getting the workers that they need to compete in the world market.

Immigrants are truly an entrepreneurial force in America. Just look at the Fortune 500 companies: 90 of them—90 of them—were founded by immigrants; 200 of them were founded by either immigrants or children of immigrants. And that, by the way, includes in Minnesota major Fortune 500 companies like 3M and Hormel.

Thirty percent of U.S. Nobel Prize winners have been immigrants. This is a country that makes stuff, invents things, exports to the world, and immigrants have been a major force behind that entrepreneurial spirit and this idea that we can always do better and bring in new ideas and new people to help us get those ideas.

I also want to focus this morning on some of the nuts and bolts of comprehensive immigration reform that will be very important to moving our economy forward, such as important provisions for ag workers—which we all know is in the bill, and also pathway to citizenship, but some specific provisions I think that people should take note of, which will be important to our economy.

Earlier this year Senator Hatch and I introduced the I-squared bill, which is about encouraging engineers and inventors and entrepreneurs to work here in this country. I-squared is about innovation immigration. It reforms the H1B Visa system, as well as the Green Card system to meet the needs of a growing science, engineering, and medical community.

I-squared would also reform the Student Green Card System to encourage students who get degrees here to stay here. Rather than going overseas to start the next Google in India, we would like

them to start it here. And that is what those provisions are about in the Green Cards.

The bill would also change the visa funding structure, and that is something Senator Hatch and I are working on in the Judiciary Committee to make sure that some of the funds from the increased fees for the visas that many in the business community believe are possible and have in fact agreed to pay would go toward educating our own students with science, engineering, technology, and math.

I am pleased that the legislation before the Senate, actually in the Senate Judiciary Committee, contains the bulk of the provisions that are in our I-squared bill.

Second, I was just in Rochester, Minnesota, in the snow a few days ago and there we were talking about the need for more doctors in our country. We actually have some clinics in Minnesota—for example, Grand Meadow in rural Minnesota, who actually lost its health clinic because they could not find a doctor to staff it.

Senator Conrad, years ago, introduced the Conrad-30 bill, which I have expanded on in this legislation, which has also been included in the comprehensive immigration reform to allow for expanded use of the concept of the J–1 Visa. What this does is, instead of sending doctors back after they do their residency, to the country that they came from, this actually allows them to do their additional residencies in under-served areas, including rural and innercity areas. And that would fulfill their requirements under the visa so they could then stay here and continue to work in this country. If they serve in those areas for five years, it actually allows them to serve even more.

Again, there is a shortage of physicians in certain parts of the country that can be filled with doctors educated in our country and would like to stay.

Another example of something you might not always think about that is in the comprehensive immigration reform bill that would greatly help our economy is tourism. Last year I was part of a group of Senators that introduced the JOLT Act. Senator Blunt and I have worked extensively on these issues on the Commerce Committee.

What the JOLT Act does is to modernize and expand the Visa Waiver Program. That bill is also in this comprehensive reform.

Just to give you a sense of the money we are talking about and the jobs we are talking about, since 9/11 we have lost 16 percent of the international tourism market. Every point that we lost was 76,000 jobs. Can you imagine that? So every point that we are starting to gain back—and we have gained nearly 60 percent of the jobs lost during the downturn—every point that we gain back, 76,000 jobs for this country.

And so that is why we have worked hard on this JOLT Act, and I am glad that that is part of it, as well. Every foreign tourist that comes, even for a few weeks, spends an average of $5,000.

One last point, we know that immigration reform not only benefits our economy in the short term but strengthens our economic foundation for the long term. Former CBO Director Douglas Holtz-Eakin estimates that immigration reform will save $2.7 trillion over 10 years by adding to our labor force, boosting productivity, and accelerating economic growth, something that we are going to

hear about from our witness Grover Norquist today who knows just a little bit about the debt and cares about it, as well.

So those are the points that I think are important to take away from the focus on the economy: What we can add specifically in certain sectors, but also what we can add overall, as well as what this can mean for reducing our debt.

Our country, as I said, must be a country that makes stuff, invents things, exports to the world; that is what this bill is all about that we are going to be considering in Judiciary over the next few weeks. And it has been really heartening to see the bipartisan support for the bill across the country, and we want to continue in that vein as we discuss this today.

So thank you very much, and I will turn it over to Chairman Brady.

[The prepared statement of Vice Chair Klobuchar appears in the Submissions for the Record on page 36.]

OPENING STATEMENT OF HON. KEVIN BRADY, CHAIRMAN, A U.S. REPRESENTATIVE FROM TEXAS

Chairman Brady. I want to thank Vice Chairman Klobuchar for choosing this important hearing topic that will be explored in a Joint Economic Committee hearing both today and tomorrow.

Given the growth gap that America is experiencing, in which the current historically weak economic recovery translates into 100,000 fewer new jobs per month, and workers realizing only a mere fraction of the increase in real disposable income during an average recovery, it is important that the Joint Economic Committee carefully and objectively examine the economic and fiscal effects of our current immigration system and proposed reforms.

If we wish to remain the world's largest economy through the 21st Century, the economic objective of any immigration reform must be to maximize potential economic benefits for the Nation, while minimizing costs to hardworking American taxpayers.

My belief is that we must close the back door of illegal immigration so that we can keep open the front door of legal immigration.

My frustration through the years of this politically charged debate is that Congress and the White House have failed to agree on a most basic question:

What kind of workforce does America need to remain the strongest economy in the world? And what steps do we need to take to ensure we have that 21st Century workforce?

There is little doubt that the front door of legal immigration is—by all measurable standards—broken. Talented individuals with advanced education, unique skills, and wealth that could be invested here to create new high-paying jobs for American workers have been excluded, or have waited years, even decades, to immigrate legally. And the current visa program for low-skilled workers is essentially unworkable.

Recognizing that other committees have jurisdiction over immigration reform issues such as border security, employer verification, and paths to legal status, the Joint Economic Committee will concentrate on its principal function, which is to provide Congress with analysis and advice on economic issues.

To that end, from our witnesses I am seeking answers to these questions:

What kind of workforce does America need to remain the strongest economy in the world? And what steps do we need to take to make sure we have them?

In addition to developing more trained American workers, who should we encourage to immigrate to the United States? And what should be our priorities? What criteria should we use to evaluate potential immigrants?

Are immigrants entering the United States under our current immigration system a net economic benefit, or a net cost to the U.S. economy in the long term?

What changes would you make to our current immigration system to maximize that net economic benefit to the United States' economy, to the federal treasury, and to the treasuries of our state and local governments?

How does the bill currently before the Senate Judiciary Committee affect economic growth in the short and long term, including its effects on wages, on real GDP per capita, on job prospects for Americans, and for our long-term global competitiveness?

As America continues to struggle with historically high budget deficits, are the immigrants entering the United States under our current immigration system a net fiscal benefit, or a net fiscal cost to the federal taxpayers, as well as to the state and local taxpayers?

How do the taxes that immigrants pay compare with the taxpayer-funded benefits they receive? And what is the impact of the immigration reform proposal currently before the Senate?

Finally, what can we learn from the immigration systems of our global competitors such as Australia, Canada, and New Zealand that admit large numbers of immigrants relative to the size of their native-born population?

So just as we need pro-growth tax reform, a rebalancing of burdensome regulations, a sound dollar, and a Federal Government credibly addressing its long-term entitlement challenges, America needs a trained, mobile, and flexible workforce that meets the needs of a 21st Century economy.

I welcome our witnesses. I look forward to their insight as we explore the economic effects of immigration reform.

[The prepared statement of Chairman Brady appears in the Submissions for the Record on page 37.]

Vice Chair Klobuchar. Thank you very much, Chairman Brady.

Dr. Kugler, do you want to begin? We have a number of Senators and Representatives here, so we are here to hear your testimony.

STATEMENT OF DR. ADRIANA D. KUGLER, PROFESSOR, GEORGETOWN UNIVERSITY, WASHINGTON, DC

Dr. Kugler. Thank you very much for this invitation, and thank you, Co-Chair Klobuchar, Chair Brady, Members of the Committee, for organizing these important and timely hearings.

As we know, over generations the strength and the dynamism of the U.S. economy has relied on many new incoming generators of immigrants, and today is no different.

Immigrants continue to contribute to the U.S. economy as entrepreneurs, as job creators, as workers, as innovators, as consumers, and as taxpayers.

So, for example, we know that immigrants tend to be highly entrepreneurial even compared to their co-nationals and compatriots. We know that immigrants are over-represented among new business owners. They make up only 13 percent of the population, but 17 percent of new business owners. They are twice as likely to generate new businesses. They are more likely to be self-employed than the native-born.

And they are 60% more likely to also generate exports. They are more likely to contribute and have higher levels of start-up capitals. And they are more likely to create jobs also for U.S. workers.

In fact, we know, for example, immigrant and small business owners generate 5 million jobs in total in the U.S. So this is very important.

Immigrants, however, are not only job creators and business owners, but they are providers of labor, important providers of labor. For example, we know that 1 in 7 U.S. workers are immigrants today. And U.S. workers—and this goes back to what Chairman Brady pointed out—they fill important skill gaps. They fill important skill gaps both at the high end of the skill distribution but also at the low end of the skill distribution.

In fact, the skills that immigrants have are very different from those that natives have. Immigrants are over-represented at the very, very high end of the skill distribution. We know that, although immigrants are 13 percent of the population and 16 percent of the labor force, 24 percent of U.S. scientists, and 47 percent of engineers, are immigrants. So this is very important.

These immigrants are twice as likely to patent. These immigrants are much more likely to engage in mathematical and computer occupations. And at the very low end, immigrants are also filling an important gap. We know that the foreign-born are much more likely to have less than a high school degree—25.5 percent of them, compared to 5.3 percent of the native-born. And this means that they also fill important gaps. They do very different jobs from the jobs that are done by the native-born.

In fact, they are much more likely to occupy jobs in production, in transportation, in construction, in maintenance occupations, and in service occupations. Moreover, for example, in agriculture alone most of the laborers are immigrants: 72 percent of agricultural workers are foreign-born, which makes you wonder how the agricultural sector would even function if these immigrants were not here to provide labor in those sort of jobs.

Now some people worry that immigrants take jobs away from the U.S.-born, from native-born Americans, and they worry that they are going to be displacing these workers. They are going to have negative, adverse effects on their wages.

In fact, we find generally in the literature that the impacts, any negative impacts that immigrants tend to have on the native-born are not there. The estimates tend to hover around zero. And in fact, the very recent studies that have been done on this topic, which are very thorough studies and which take account of these complementarities I just talked about, tend to find that if anything

immigrants tend to have positive impacts on the native-born, and in particular on high-skilled native-born Americans.

So in fact a study by Ottaviano and Peri finds that the increase in immigration between 1990 and 2006 increased the earnings of the native-born by about 1 percent. In my own work, I find something very similar. I find that even among immigrants and the native-born who are likely to do the same jobs, a 10 percent increase in Latino immigration tends to increase the earnings of the native-born, high school native-born Hispanics by about 1 percent.

All of this means that when there is immigrtion there are more job creators. They are people who are becoming employed. They are also more consumers in our economy, and immigrants in fact have a very high purchasing power. Among Hispanics, and Asians, especially the purchasing power reached $1 trillion and $500 billion, respectively, in 2010. This is money that ripples through the economy and it is money that benefits all of us.

So any danger that we may actually be taking jobs away from U.S. workers seems to be unfounded in many instances.

[The prepared statement of Dr. Adriana D. Kugler appears in the Submissions for the Record on page 39.]

Vice Chair Klobuchar. Thank you very much for your testimony.

Mr. Norquist.

STATEMENT OF GROVER NORQUIST, PRESIDENT, AMERICANS FOR TAX REFORM, WASHINGTON, DC

Mr. Norquist. Thank you very much, Chairman, Vice Chairman, Members of the Committee:

We do not have to sort of go to equations or predictions. We can look at our own history to see that as the United States has been the most immigrant-friendly, welcoming nation in the world, we have also become the richest, most powerful, most stable nation in the world.

And we can look around at other countries and see how we compare with those. The countries that do better have higher percentages of their workforce and their population as immigrants. Being open to immigration has been part of the United States' success, and some other countries have done well also.

We can look at Japan, which is a country that, for one, is forgetting to have children, but in addition to that is not culturally capable evidently of immigration. And as a result, what was supposed—I mean, I went to business school in the 1980s and all I heard from everybody was that Japan is number one. They are going to leave us in the dust. And then all of a sudden, they left the playing field because, one, they forgot to have kids, and two, they are not capable of doing immigration.

China is in a similar position. We are hearing all the same things about China as an economic challenge to the United States. They actually have immigration from the interior into the cities. But once you finish that, they do not do immigration outside of—from outside of China, and they are going to get old before they get rich. They are going to be old and not have enough—the number of people in China is eventually going to decline because they are

not doing immigration, but the number of the workforce declines faster in China.

We can look at Europe with similar challenges there. They sometimes do immigration, just not very well compared to the United States.

So it is one of our competitive edges in the world that we do immigration better than other people. Now we have been whining about it for 300 years, since the Germans started sneaking into Pennsylvania awhile ago. We have always felt that the new guys were a problem. The guys who were here in previous generations we are married to, and they are our neighbors, but the new guys are probably not up to snuff.

We have just been through this again and again and again. We do not even have to go to international comparisons. We can take a look at what Arizona did recently when they decided to shoot themselves in the ankle with legislation which discouraged people who were in Arizona from staying; 200,000 people left. We had certain economic problems.

They were worse in Arizona than in California, than in New Mexico. For other reasons, you would think Arizona would do better, but after they passed the law discouraging, people left and those jobs were not picked up by other people. Unemployment in construction. Unemployment in agriculture was not picked up by other people jumping in in some vast pool of people who were kept out of jobs by immigrants. And again, in both construction and agriculture and food products, you saw declines in employment that flowed from that.

So comparing the United States to other countries, comparing the United States history, looking at state comparisons where Arizona has decided to be a bad example so we can all study it. And then you go to the questions where Doug Holtz-Eakin, the Vice Chair referenced his study recently which pointed to a bill similar to what the Senate has been looking at, how that would dramatically increase not just GDP but the government's balance sheet with more revenue coming in, dwarfing external costs.

One reason why bringing to legal status those people who came here without papers is that, imagine just in your own life, a sibling or a child of yours, you said go out and accomplish everything you can in life, but do so—but you can't get a driver's license. You are not going to be able to fly on a plane. And every time you switch jobs, you have to worry somebody will arrest you. That kind of depresses the kind of job and the productivity that you could have as a worker.

When in 1986 those restrictions were removed from about 3 million people around the country through the amnesty program then, the wages of those people jumped 15 percent. They didn't get smarter or harder working, they did not have these shackles put on them by the fear of living in the shadows.

So each of these suggests tremendous steps forward if we do more immigration, total numbers, but also as discussed earlier we need more high-skilled workers. We need guest-worker programs, because there's a lot of need for low-skilled workers. And when we think about dynamic economics, low-skilled workers have children

and grandchildren that may not continue to be sugar-cane cutters. They may be senators. And so—or they might become successful.

[Laughter.]

Vice Chair Klobuchar. I got it. That is so noted.

Mr. Norquist. I should have stayed with lawyers.

Chairman Brady. Note he did not say "Congressmen," which I appreciate.

[Laughter.]

Mr. Norquist. The challenge is that you have to look at this not just tomorrow where all the workers given legal status would do better, but over time the idea that the low-skilled worker, the Chinese who came over to build the railroads, did not stay in the railroad-building business. And the Japanese who came over to be sugar-cane cutters in Hawaii did not stay as sugar-cane cutters as they moved forward and future generations did better.

So I think looking at this from a dynamic standpoint is very important, and also taking out those costs that are associated with education, welfare, and entitlement programs that exist independent of immigration, and not try and stick those onto the immigration debate gives us a good sense that the Senate's legislation—which can be improved; there need to be more high-tech positions; there needs to be a more robust guest-worker program—these are steps in the right direction and it would be very helpful for the United States economy. And we can leave the rest of the world in the dust.

[The prepared statement of Grover Norquist appears in the Submissions for the Record on page 49.]

Vice Chair Klobuchar. Very good. Thank you, very much, to both of you. I am going to start with Dr. Kugler.

You mentioned the ag worker issue, which Mr. Norquist also mentioned. One of the most moving parts about the testimony in front of the Senate Judiciary Committee where we have now heard from something like 25 witnesses was when the head of the Migrant Workers was sitting next to one of the heads of the farm groups. And as you know, the Farm Bureau, and Farmers Union, have endorsed this bill.

Could you talk briefly about how this can be so helpful for agriculture in the economy?

Dr. Kugler. Thank you very much, Vice Chair Klobuchar.

So as I mentioned, 72 percent of laborers in agriculture are foreign-born. So only 28 percent of those working in agriculture are native-born. And they tend to do managerial occupations. So the basic labor work in the pre-harvest, harvest, and post-harvest stages tends to be done by immigrants.

And as I said, this makes you wonder how the agricultural sector would even work if you did not have these foreign-born individuals working there. There are about 50 percent who are actually currently undocumented, and they are very much in limbo. They can be kicked out any time. Which means that at some point the $200 billion in value-added that gets produced by the agricultural sector could even be halved.

So it is very important to provide some stability to this labor force. It is very important to give some sense of certainty to the agricultural employers to know that these workers are going to be

there in years ahead. And I think the idea of providing agricultural visas, of allowing people to change from one employer to another, and to allow them to stay here makes a whole lot of sense.

Vice Chair Klobuchar. Thank you, very much.

Mr. Norquist, the Heritage Foundation put out a report yesterday that says immigration reform could cost as much as $6.3 trillion over 50 years. I am going to put in the record an editorial from The Washington Post today which debunked a lot of those numbers. And, as you know, Cato and a number of other groups and economists—I've mentioned some of the facts in my opening statement—have also debunked those numbers and have criticized those numbers.

Could you talk about that study? And do you think that it accounts for the economic benefits that immigrants could bring to this economy, and why you think that this study is incorrect?

Mr. Norquist. Okay. To be fair to Heritage, for 30 years the Heritage Foundation was a Ronald Reagan-Jack Kemp institution that recognized the value of immigration to the country, and did very professionally done studies to that effect.

Julian Simon, the great economist and thinker was a senior fellow at Heritage, and in 1984 put together a paper on The Nine Myths of Immigration, which covered most of the mistakes people make when they suggest that immigration hurts rather than helps the economy. Those nine are still true today—or still false today. The criticism of the nine is still true.

And then that year they did a debate between Julian Simon, which they published, and some character from FAIR who made an argument against immigrants. And then in 2006, there was an excellent study Tim Kane put together, who is now at Hudson as an economist making the case that immigrants were a net benefit to the economy.

It is only since 2007 that one guy over at Heritage has had a different opinion. The 2007 study at the time was basically used by a radio talk show host who took the number and not the analysis and had a conversation.

Since then, other groups—Cato and others—have gone back and gone through that study and suggested it is not actually very accurate. And there was a hope that if Heritage did a re-do on that study that they would improve those. They didn't.

And much of the costs that they attribute are there anyway. They are people who are citizens today. Something like 40 percent of the cost is education, and 80 percent of those people are citizens now. So they stick that on as if it was a cost of the legislation.

One thing to keep in mind when people throw out some numbers here is that somebody who is going to retire at 2030 is going to collect $650,000 on average on Social Security and Medicare, but only pay $494,000. So a little more than $150,000 for everybody that is going to get more in than they pay out. That is true for everyone in the country. That is true for people who are born here. That is true for people whose relatives came over on the MAYFLOWER. It has nothing to do with our immigration policy.

And if you think that more people, because the entitlement system needs to be reformed—and I know you folks are working on that—but at present, if you don't reform them the whole country

goes bankrupt, it's not an argument to structure how many children you have, or how many immigrants you have, based on a flawed entitlement program that needs to be reformed.

So if you take those challenges in, you take those numbers that Heritage puts out on entitlement, it is an argument against having children. I mean, children tend to be much younger than immigrants. Their English is much more limited. They do not work very often. And they are going to get a lot more out of the entitlement program than they put in. But that is a bad argument against children——

Vice Chair Klobuchar. I figured that out, yes.

Mr. Norquist [continuing]. It's a good argument for reforming entitlements.

Vice Chair Klobuchar. Very good. And from what I understand, when you look at the Holtz-Eakin numbers and other things, there is a strong argument—well, we will get the CBO score here—but that it actually brings it down in the long term to bring these people out of the shadows and have them work and pay taxes and everything else.

Do you want to comment on that?

Mr. Norquist. Yes. And this is I think where we should credit Heritage. They for a long time have said that we ought to be using dynamic scoring. When you increase the labor force, you ought to recognize that when you study the future labor force.

When you know historically that people that come in and get legal status are able to work more productively, you can figure that in. These are not made-up numbers. These are historic numbers that you can look at.

And so I understand CBO has announced they will be doing dynamic scoring on those issues where you can look historically and know something. You're not guessing about what the impact would be. And I was disappointed that Heritage in this study decided that they would ignore dynamic analysis.

Vice Chair Klobuchar. Okay.

Mr. Norquist. I am not sure it makes sense.

Vice Chair Klobuchar. All right. Thank you. My last one, quickly, one of the most moving parts about your testimony with the Judiciary Committee is you quoted Ronald Reagan's farewell address to the Nation about the shining city with walls that had doors that were open to anyone with the will and heart to get here.

Do you think that this immigration reform moves us closer to being that shining city on the hill?

Mr. Norquist. Absolutely. And, look, I want to commend the Senators and the folks on the House side in the approach you are taking on this, the Group of Eight that put together this step one on immigration reform.

They didn't show up at seven o'clock in the morning and say let's have a vote at ten o'clock. They are not asking, like the Market Fairness people, they are not asking to skip the actual regular order of going through committee; it is online. Everybody who wants to whine about it or make a suggestion, or amend it, can read that. It will be before the committee. It will be before the whole Senate. The House is going to come up with their own analysis in this general direction.

So anyone who has a real concern can bring it up as an amendment. The people who just do not like immigrants can say, oh, it's not perfect; no. I think that is silly. But I do think that the Senate and the House are taking exactly the right approach to this because it needs to be thought about and it needs to be done publicly, not in the middle of the night, not quickly. And we are months away from Senate action, and we are going to have lots of time to talk about this in the House. There is no reason for anybody to be nervous about how we go through. I think it is a tremendous opportunity for bipartisan cooperation in creating more economic growth. And as the Holtz-Eakin numbers say, this would do more to reduce the deficit than some of the other things people talk about.

Vice Chair Klobuchar. Thank you very much. I appreciate that.

Mr. Hanna.

Representative Hanna. Thank you.

Mr. Norquist, in your testimony you state that immigrants exhibit different skill sets than native-born Americans, and therefore generally do not compete against each other in the labor market.

Could you please elaborate on that point? Much immigration labor is highly skilled and thus presumably not differentiated—is not highly skilled and presumably not differentiated. Why would wage competition not occur in the labor market? And furthermore, knowing that Australia and New Zealand and other countries differentiate in the skill sets that they ask of people in terms of immigration, is that something you support generally, or not?

Mr. Norquist. I am not sure that doing some Japanese MITI kind of economic planning thing—you know, you are a farm laborer today, therefore you will be a farm laborer forever; you are a chemical engineer, so you will be a chemical engineer forever.

When you talk to the guys in Silicon Valley, the people who came in on H1B visas and invented the kind of companies that create tremendous amounts of jobs, bounced around. This was not their first effort. It's not the first company they worked for. It is not the first zone that they worked in.

So I can imagine some bureaucrat in Australia who thinks he is very clever going, oh, we need three plumbers; we will take three plumbers today. But in a free society, plumbers can decide to do something else in two years, two months, or two generations. And you get quality people—you know, guys who have not been to prison—and some of the engineering talent that—one of the reasons people talk about at the high end that certain engineers coming in do not compete with American engineers is we have shortages of particular kind of industries so that kind of by definition they do not compete. But they will compete by moving to Canada and compete from there.

I mean, right? Microsoft has people they hire and they put them in Canada because they cannot get them across the border here. So they pay taxes in Canada and make the Canadian economy stronger, and they have to put up with all that snow.

Or, they stay in India. Or they stay in Russia. Or they stay somewhere else and compete with us. In a worldwide, everybody competes with everybody and the idea that when they come over

here somehow they compete more than where they were worked before planes and Internet and more mobility.

Representative Hanna. You talked about Arizona. If the net cost of public service to unauthorized immigrants in the state had been substantial and the laws had the intended effect of inducing unauthorized residents and workers to leave, is it clear that the state is now worse off, or better off?

Mr. Norquist. Well the numbers I was looking at talked about wealth and income generated, 200,000 people who were working have left; the value of the housing in Arizona has fallen more rapidly than neighboring states. So we are comparing apples and apples.

The only state that has had a worse catastrophe was Nevada, in terms of dropping home values. And those jobs were not picked up by somebody else. Meaning, the unemployment in those sectors where people without papers congregated. So that suggests that they were not displacing some guy, and when they left the person they had been displacing showed up and said can I have my job back? That is not what happened.

Representative Hanna. So knowing that commonly accepted wisdom is typically wrong, state and local governments bear much of the cost of certain public services especially related to education, health care, and law enforcement. For both of you, can you speak to that? Because I constantly hear about the cost of immigration in terms of social programs.

Doctor, do you want to start?

Dr. Kugler. Yes, Mr. Hanna. So there are two things, as Mr. Norquist pointed out, that are faulty in the Heritage study. One of them is that it overstates the costs. In one sense we know that it overstates the cost to law enforcement, to education—because, as was mentioned, these are costs that would be incurred no matter what.

In fact, we know that immigrants have a lower rate of incarceration. They are less likely to commit violent and property crimes as well. So, if anything, they impose less on law enforcement from that perspective.

We also know that naturalized citizens receive lower Social Security income, which is not taken into account in this study by the Heritage Foundation. And in fact we know that poor foreign-born are less likely to claim benefits than the native-born. So there is evidence of that, once you control for everything else.

Representative Hanna. Is there empirical evidence supporting that they basically pay more in than they receive?

Dr. Kugler. Yes. So that is another very important point. One thing is that many of the undocumented have already been contributing, and they have been contributing over the past 10, 20 years.

We know that, for example, the Social Security has received over $1 trillion in their Earnings Suspense files. These are the unmatched Social Security contributions. So this is money that has already been contributed by undocumented workers.

The IRS estimated that between 1996 and 2003 undocumented immigrants contributed about $50 billion in income taxes, and there are good estimates and conservative estimates actually that

showed that state and local taxes are contributed by the undocumented at the rate of $11.2 billion per year.

So this is money that has already been contributed. In addition, as Vice Chair Klobuchar pointed out, there are dynamic economic gains, and it is very important to point out that the Heritage study does not take account of that.

For example, we know that as a result of legalization and eventual citizenship after 13 years, there would be a 25 percent gain in earnings and in income that would increase of course the tax revenues that would be obtained from these populations. So legalization in itself is something that would contribute to solve some of our fiscal issues.

Immigration, as we mentioned before, would increase earnings of domestic workers, as well, and would increase the earnings of the more-skilled domestic workers which precisely means that they are people also who are going to be paying higher revenues into the system.

Representative Hanna. Mr. Norquist, quickly? My time is up.

Mr. Norquist. Yes. Undocumented workers have been paying taxes for some time. They pay sales taxes. How do you get away from that? They pay property taxes. And they show up with a Social Security number. They are paying the Social Security, but they are not going to get it out. They pay into income taxes as well.

So there is some weird sense that somehow these people are not paying taxes. They pay all the interesting taxes that we run into on any given day without the deductions. And so that is one factor.

But the other is, look, we have a challenge. We have a public school system that is not educating people as well as you would like. Most of the people—at a higher cost than is necessary. Most of the people that affects were born here, okay? If they are not learning American history, the guys who were born here are not learning American history.

If they are not learning English properly, the guys who were born here are not getting very good English classes. We know from looking at states that have experimented with school choice that you can dramatically drop the cost of education and increase quality by giving parents a choice.

If you are worried about the cost of educating people, let's focus on that, not deciding that 3 percent of the population is the cause of some problem——

Vice Chair Klobuchar. Okay——

Mr. Norquist [continuing]. I'm not sure that that is why the public school system is having trouble in Detroit, all the immigrants showing up in Detroit. There are other challenges that governments have in putting these forward.

Medicare, Social Security, are not structured to be sustainable. That needs to be fixed. It is not the problem of an immigrant. It is not the problem of a baby. But we ought to fix them for everybody. And let's do welfare reform, as Bill Clinton signed. There are 185 welfare programs like the Aid to Families with Dependent Children. Let's block grant them all. Do what Clinton did on welfare reform. Drop costs. Made people less dependent.

But let's do that for everybody, not targeting some group.

Vice Chair Klobuchar. Okay——

Representative Hanna. Thanks, Mr. Norquist. My time has expired.

Vice Chair Klobuchar. Yes. Thank you. And we are going to try now to stay within the five minutes after Mr. Hanna, Congressman Hanna and I abused it, because we have something like 10 Members here which shows a great interest in these witnesses.

Congressman Delaney.

Representative Delaney. Thank you both for your remarks, and I will address my question to both of you.

And the question comes, Mr. Norquist, from some of the comments you made about how this is a competitiveness issue for our country. I am thinking about, or my question is a slightly different dimension to the competitiveness question.

I have always been a big believer that the cost of doing nothing is not nothing. And we often times do not realize the cost of inaction until it is too late to fix the issue. And Senator Klobuchar I think spoke very eloquently about how important immigrants have been to our economy in creating the leading businesses. Half of the Fortune 400 have immigrant or children of immigrant founders. And the same is true today.

I think in the last five years more than half of the companies that have gone public in the technology sector that received venture capital backing were founded by immigrants.

And a lot of this is because our country has significant relative advantages. We have a rule of law. We have free markets. We have a large-scale and stable economy. We have some shortfalls, obviously, but we have significant relative advantages.

One of our probably singular advantages is the fact that the majority of the world wants to come to our country. With 7 billion people in the world, I am not sure how many, but 5, 6 billion of them probably if they had their way would want to come to the United States and enjoy the benefits and the freedom that we all have a privilege of experiencing.

And I worry in the context—and this does not get to the granular statistics that are at all accurate about the effect that immigrants have on our economy right now, but it gets to this notion that in a world that is changing because of globalization and technology, and as we see emerging economic centers around the world developing and competing with us, it feels to me like we enter this debate as if we have time to work through this.

And I agree with the way you framed it, Mr. Norquist. We should spend time getting this right. But as if we will always have the ability to just flip a switch and fix the problem and everyone will want to come here.

Is there a chance, in your judgment, that unless we fix this issue and really change how we think about this issue, that at some point in the future 5, 10, 15, 20 years, this singular advantage we have where so many people wake up and want to come to the United States may in fact not exist?

And that while that is very difficult to measure, we can measure our debt-to-GDP very—we can measure it a hundred different ways. It is hard to measure this relative qualitative advantage that we have. And I worry that unless we get this right, that it will disappear. So we will start with Dr. Kugler and then Mr. Norquist.

Dr. Kugler. That is a really great question.

I think there are not only short-term gains but long-term gains that can be made as a result of immigration. Of course in the short term you have this increased consumption, ripple effects through the economy, increased taxes, and all of that is going to help us in the short term.

But in the long term, there are some important contributions. There is the issue of innovation. There is the issue of continued job creation, and continued entrepreneurship.

In fact, we have seen less and less people come to the U.S., and less creation of venture-based firms by immigrants in recent years. And so it is very important to take that into account, because we also know that these new businesses which are predominantly being formed by foreign-born individuals tend to be more productive. They tend to be more innovative. They contribute more greatly to job growth.

And so if this does not happen, we are running the risk that in the future these jobs are not going to be there and they may even go to other countries. For example, the EB5 program has been able to bring people to the U.S., and there is the Start-Up Visas that are being proposed which also take advantage of investors and venture-backed capital.

But we also know that countries like Canada, like Australia, and other countries are already attracting many other people with those visas.

Representative Delaney. Great. We'll give Mr. Norquist a little time.

Mr. Norquist. The short answer is "yes," the other team gets time at bat. In the 1980s we dropped our marginal tax rates and we were growing faster than everybody else. And then the Europeans said, hey, we could do that, too. And their corporate income tax is now an average of 25 percent. We are at 35. And that is the European average. Stupider than France is not where we want to be. Other countries can move ahead of us both in how they deal with immigration—but good news. We have some time. But not an endless amount of time. And we could end up with the situation where people are perfectly happy to show up in Canada, and Australia, and Singapore.

Representative Delaney. Great. Thank you.

Vice Chair Klobuchar. Thank you, very much.

Senator Coats.

Senator Coats. Thank you, Madam Chairman. You did a great recruiting job for this session here. I know there were some issues with the other one. We all had conflicts. But obviously this issue is something——

Vice Chair Klobuchar. I think we almost have everyone here. It's a very good showing for some very good witnesses.

Senator Coats. It is a tribute to your advising us of what our priorities ought to be.

Vice Chair Klobuchar. Thank you.

Senator Coats. Both Dr. Kugler and Mr. Norquist made compelling arguments for immigration. We are all the product of that in time. I am the son of an immigrant. Unfortunately, Mr. Norquist,

I turned out to be both a lawyer and a senator, and apparently that doesn't put me in very high status. But——

Mr. Norquist. Your children might work out.

[Laughter.]

Senator Coats. They might. Thanks to their mother, they might do that. But I don't think there is any difference here, I would think, or even in the Congress, relative to the importance of immigration to this country, and the continued importance for ever more immigration to this country.

The question is, though, how do we deal with illegal immigration to this country? And neither one of you distinguished between legal and illegal.

Now maybe, Dr. Kugler, all the facts and statistics and numbers that you threw out relative to the Fortune 500 and the accomplishments of immigrants, but was there a distinction between legal and illegal immigrants in those numbers?

Dr. Kugler. It is very hard to distinguish in those numbers between the two. But I can tell you that we know that some of these illegals are included in there. Some undocumented workers are included among the job creators, among the self-employed, certainly among the consumers——

Senator Coats. I understand.

Dr. Kugler [continuing]. And among the workers.

Senator Coats. I understand that. But you would agree that you cannot just simply come up with a number of the Fortune 500 without distinguishing——

Dr. Kugler. No, I don't think they would be included in the Fortune 500, but they're included certainly among the workers——

Senator Coats. No, I'm not disputing——

Dr. Kugler [continuing]. They're included among the self-employed.

Senator Coats. Yes——

Dr. Kugler. They're included among the consumers. I think what is important——

Senator Coats. Excuse me, excuse me. Can I say something here? I guess I have very limited time. I am not disputing the fact that those who have come here illegally, some have made great contributions to this country.

The question is: How do we go forward? I was here in 1986. I supported Ronald Reagan's immigration policy. At the time, we had 3 million illegals. We were promised at the time that this would put an end to illegal immigration. It would strengthen the legal. And now we have 13-plus million.

It did not do the job. How do we know 10 years from now, 5 years from now, that we won't be faced with say 23 million illegal immigrants——

Dr. Kugler. Yes, sir, let me answer the question——

Senator Coats. Let me finish the question. And shouldn't we have a policy in place that finally addresses this issue?

Dr. Kugler. Certainly. So let me answer the question. First of all, let me say that if there are any costs to immigration, they probably come from the illegal status that some of these immigrants have.

As far as I know, the numbers tell us that there are 11 million. I have not seen the 13 million that you mentioned. I have seen 11 million, as far as the best estimates on this issue.

There is certainly some cost. They may come on the fiscal side because we know that between 50 to 60 percent of these undocumented pay taxes. They actually do not benefit. They may have a harder time, for example, setting up new businesses. So you may not benefit as much on that end from this illegal immigration.

But precisely we know that providing legal status is going to help us to further benefit from these 11 million people who are already here, and who would obtain legal status and would be able to gain this 25 percent gain that I mentioned before, which are numbers that come from studies that were done after the 1986 reform.

Senator Coats. Thank you. Mr. Norquist, the question on the Heritage, my understanding is, and help me out here, before Heritage became what it is now, as you described what it was before, I think there was a study done indicating that the number was 2.6 trillion I believe instead of the latest number out, 6.7 or 3, or whatever it is.

What should the number be from Heritage? Was that previous number a good number?

Mr. Norquist. The previous number was flawed for all the same reasons the present number is flawed. It used households instead of individuals. There were a whole series. The statisticians looked at the first one and said I hope they'll fix this. They didn't fix it. They doubled down. And then they added costs of legal immigrants, of people who are here legally, and stick them in the six. Educating the 5-year-old who was born in this country, who is a citizen, is not a cost of passing the Senate bill. That is going to be there.

Senator Coats. So the same assumptions used now——

Mr. Norquist. And worse.

Senator Coats [continuing]. To achieve this number were the same assumptions used——

Mr. Norquist. It got worse, actually, the quality of the work.

On your question of legal versus illegal, we in the 1970s had a 55-mile-an-hour speed limit. And there was all sorts of illegal driving going on. And we didn't say, you know what we need first to do is to arrest everybody who is illegally driving over 65. We said 55 is not reasonable. The highways are built for 65, and in Montana evidently 90.

So let's get up to a reasonable speed limit, and then enforce the law. And the challenge we had in 1986 was, they did some border enforcement. They did some amnesty. But they did not do anything with future flows. We did not reform the immigration policy to give us the quantity of both low-skilled and tech high-skilled workers so that, as soon as we hit the new—the economy started to grow, there was no legal way to get in.

It is not like there was some other way for people to get employed. You know, we didn't have numbers. So what this legislation that the Senate has put together begins to do is deal with that third part. What about the future?

How do we not end up with a whole bunch of illegal immigration in the future? The same way we ended up not having a whole bunch of illegal driving because you moved the speed limit and the immigration numbers to a reasonable number of what the American economy needs both to grow and to help everybody who is here already.

Vice Chair Klobuchar. Thank you, very much.

Senator Coats. I'm way over my time. Thank you.

Vice Chair Klobuchar. We could do it on the record later. I just want to point out, in response as well, to Senator Coats' question, that one of the things we will be focusing on in the Judiciary Committee with Senator Lee and others are these issues about what has happened over the last decade in terms of security, the fact that everyone agrees that the system is broken and it has been the reason that people like Speaker Boehner have said we need to speed up consideration of this legislation instead of delaying it.

So I want to thank you for those question, and we are trying to focus very much on the economic piece right now, but the questions that you have raised about the past and how we fix this are very relevant to the outcome of the Judiciary hearings.

Senator Heinrich.

Senator Heinrich. Thank you, Madam Chair.

Mr. Norquist, I appreciated your comments about a farm laborer doesn't necessarily remain one, and a chemical engineer doesn't necessarily remain one. I started out as a mechanical engineer and somehow ended up here. And you can make up your own mind as to whether or not that was progress. But as an engineer I do know that STEM education is incredibly important to our economy, and that the next generation of STEM leaders will play a critical role in driving us forward in an increasingly global and competitive economy.

I wondered if you could say a few words about the impact of immigration policies today that really force many of these U.S.-educated STEM graduates to return to their countries of origin, rather than putting those skill sets to work here in the United States.

Mr. Norquist. Absolutely. Look, a whole collection of people who used to be anti-immigrant are now pro-immigrant and pro-immigration reform, including Lou Dobbs, right, when he was on CNN. Monday, Tuesday, Wednesday, he complained about these immigrants coming into the country. And then on—so you should just keep them out. And then the rest of the week he complained about the out-sourcing to the people we kept out, which gave him Saturday off.

But, you know, if you tell a highly talented person you cannot come and be highly productive here in the United States, you have to do it someplace else, they don't, you know, quit working.

Senator Heinrich. That's right.

Mr. Norquist. They not only do not add to our economy and to all the success of us, but they go out and compete with us. And then people have to out—we need an engineer to do this; well, there's one in India. Really? Yeah, the guy we wouldn't let in, right? He's doing it. So we out-source to them.

Then people whine about out-sourcing. You can avoid out-sourcing by having talented people come and stay here, and STEM

education is one way to target that. I mean, why in the world would you take all that lovely talent in somebody who wants to become an American and tell them to go live in France or something off like that.

Senator Heinrich. Especially when we contributed a great deal to the educational system that made that possible for them.

Dr. Kugler, I was home last week in New Mexico and spent a great deal of time down on the southern border in Dona Ana County, and met with—got a chance to spend a lot of time with Border Patrol, a lot of time on the Port of Entry, which is very economically important, and a lot of time with a number of the immigration reform advocates in that part of the State. And many of the people I got a chance to meet with are Dream Act students.

They are students who came to the country not really by any choice that they made, but by a choice that their parents made. Incredibly motivated, hardworking, not only want to make a better life for themselves but really want to contribute to this country, the only country they really know as their home. A lot of them want to start businesses, be engineers or doctors or scientists.

And I wondered if you could talk a little bit about the particular aspects of how including an expedited path for these students as part of an overall accountable immigration reform effort will impact our economy, and not just the border region but the entire country.

Dr. Kugler. Well, so these are the so-called Dreamers. I think the Fast Track, so-called Fast Track, instead of giving them a 13-year window, giving them the 5-year window makes a whole lot of sense.

As you mentioned, these are people who are usually going to stay here no matter what. They are Americans for all practical purposes. And they will most likely become educated, continue to college, and contribute to the economy in all sorts of ways.

There are some very good studies that have been done about the ripple effects, and the increased earnings that they would gain once, again, they gain legal status. And this is the big issue, right? Once you get legal status to people, they are much more willing to make investments not only into the education but also in terms of creating businesses, and to make long-term investments into their careers here in the U.S.

So we know that there are actually big gains economically as taxpayers, as consumers, and this is money again that ripples through the economy. And there are some very good estimates on that end.

Senator Heinrich. Well, Madam Chair, I am going to try and set a little bit of a—well, I am just going to yield back the rest of my time and not go over and see if it becomes a trend.

Vice Chair Klobuchar. Well very good. And thank you for that focus, Senator, on the STEM and the need for more students. I always find it ironic that we have unlimited visas for sports players, which we love in Minnesota, as Representative Paulsen would tell you, from hockey players to basketball players, but in fact we have our limits on scientists and engineers coming into this country that are a third of what they were even just a decade ago.

So, Representative Paulsen.

Representative Paulsen. Thank you, Madam Chairman.

Just to follow up on those two points of Senator Heinrich's as well, that I think it is really helpful to have this hearing that just looks at the issue of immigration through that economic lens. I think it adds just more credibility and thoughtfulness to the whole approach of this issue. And it is one of the reasons, obviously, that people are coming to the United States, for a better opportunity. And it is borne out in the statistics, obviously.

I remember in Minnesota a couple of years ago I spoke to an individual who was involved in a software startup company. And he was seeking new software engineers that he needed to be successful and grow the operation. And he ran an ad in the Minneapolis Star Tribune and came back with two qualified applicants.

He runs the same ad in the Delhi Newspaper in India and comes back with 800 qualified applicants. And clearly there was a disconnect there in terms of having the ability to fill where the work was needed to grow and prosper. And he was able to work something out eventually where he did operations not only overseas but also grew his operations in the United States in Minnesota.

And I hear other stories from similar employers who go through those exact same situations that have a tough time filling open spots in terms of STEM, et cetera. And I have introduced legislation on the House side. It is not the comprehensive component, but it is one of the steps on the Staple Act that would exempt foreign-born individuals who have earned a Ph.D. in STEM from the limits on the number of employment-based green cards and H1B Visas annually.

I know Senator Klobuchar has moved forward with similar initiatives, as well, and I think that is great because I think if we can get immigration reform right we can actually help our economy and close the growth gap, which I know has been a focus of a lot of our hearings in the JEC as well.

I just want to follow up with one more specific question on STEM though if I could, Mr. Norquist first.

It is pretty clear that we're saying if you get educated here, foreign-born folks are educated here, we are sending them back home. They are going back home and they are becoming our competitors; they are competing against us.

In your viewpoint, is there a tipping point? I mean, is there a critical mass where other countries at some point generate either local education systems, or entrepreneurial sort of development where there's critical mass where we will no longer be the destination? Where we do have a tipping point and that critical mass is overseas if we don't act soon?

Mr. Norquist. Well you certainly see it in certain industries, banking and others. There are a whole bunch of cities where somebody could cheerfully go to and it would be almost like living in the United States, but without really cool cable.

So I think, yes, it is a danger. And I think that we are better off making available—if they want to come and be Americans—that opportunity. I was unaware of the legislation that said if you got your STEM Ph.D. somewhere else come on in. I think that is a great idea. It certainly ups the numbers of folks that could come in, not just the ones who were able to get into schools in the States. I think that is an extremely good idea.

Representative Paulsen. And, Dr. Kugler, maybe you could expand, as well? Going forward, does the lack of STEM workers—what does it mean for future innovation for the economy in general, you know, quantifiably. And I know the numbers clearly bore out where the immigrants have contributed greatly towards innovation, and the dynamic components of our economy. But what happens if we do not move forward?

Dr. Kugler. So we know from data just from last month that about 17 percent of employers are unable to fill their vacancies; 36 percent are unable to find enough qualified applicants. And there are substantial skill gaps in high-tech manufacturing, information, and the health sectors.

These are highly innovative sectors, which if they do not have the qualified labor would not be able to continue growing. Many of these people work in R&D and innovative activities, and without them we would hold back creativity certainly for the economy.

It is very important that in the proposal they have included these exemptions to the H1B Visas from the caps for in particular doctorates in STEM, for those managerial occupations, and it is very important because the 65,000 cap is being reached continuously every year. It is being talked about in the proposal to increase STEM to 110,000. But these exemptions from these caps is very key because it allows people to come in no matter what, and not to have to rely on whether they will make it into that cap that year or not.

Vice Chair Klobuchar. Thank you very much. Thank you, both of you.

Senator Murphy, who knows a little bit about business. His State is first per capita for Fortune 500 companies. You may wonder why I know that, because Minnesota is a very close second.

Senator Murphy. A very close second?

Vice Chair Klobuchar. Yes, thank you.

Senator Murphy. I appreciate the advertisements, Vice Chair. Thank you to both of you for being here today.

Mr. Norquist, I wanted to get back to the portion of your testimony talking about the demographic reality of the globe 18, 20, 25 years from now. If anybody wants to have a little bit of fun, you should look at the predictions of average age by country in 2030. It's actually not a "prediction"; it is science because everybody is going to be alive in 2030 who is alive today.

But China, which today is 4 years younger than us, will be 5 years older. Japan will have an average age of 52. The average age in European countries will be 5 to 10 years older than the United States. And having just recently come back from an economic conference between U.S. leaders and European leaders, they look at us with envy. Because in addition to the energy revolution happening here and our relative state of economic growth to European nations, they just look at this demographic advantage that we have, dependent on immigration policy on continuing to head in the direction that allows us to remain relatively young as one of our chief strengths.

And so I just wanted to allow you to expand a little bit on those comments. Because I think people fail to recognize the enormous advantage that we have that is dependent on us getting immigra-

tion right. We are going to move in a matter of 18 years from 37 to 39, and we are only going to become 2 years older on average as a nation despite all of the attention given to the enormous number of people graduating into the ranks of Medicare and Social Security roles. But immigration is a key part of this.

Mr. Norquist. Sometimes people do say, you know, our national defense and our strength in the world is based on our economy, which is true, but that is also based an awful lot on the workforce—the size of the workforce, the quality of the workforce, and the age of the workforce.

I mean, China's challenge is not just eventually the number of, if you only have one child per couple, eventually total number of Chinese people declines in the world, but the decline in people of working age occurs sooner and is much more dramatic.

I mean, Europe is not going to disappear in terms of numbers of people; it is just going to be old. It is going to be a bunch of people who are generally older and out of the workforce hanging around visiting cathedrals that were built 200 years ago, 500 years ago. And we can go visit and stuff, but it is going to be a little tedious.

So this is a challenge, and it is an opportunity. It's a strength, a core—I mean, if we were a company, you would say: What's your competitive advantage versus other countries? Our ability to do immigration well, which is why getting an immigration reform bill that strengthens our immigration system so we can have more immigrants, better immigrants, and have a secure legal status for the people who come, and certainly in terms of border security for people you do not want to come.

Getting this better is extremely helpful because it is one of the things we do. It is not like, oh, it is vaguely interesting and it is over here, and if we screw it up it doesn't matter. It is what we do better than the rest of the world, and we need to continue to do that. And there are some obvious failures over the last 20 years. We have had opportunities on STEM, on high-tech immigration, on H1B Visas, on Guest Worker, on coming up with how to deal with Dreamers and so on, but we need to move now.

So I am all in favor of taking time over the next few weeks, the next few months, but we could have done this 10 years ago.

Senator Murphy. Right. Dr. Kugler, I wanted to talk about a criticism that is lodged all over the country, and certainly in Connecticut where people talk about immigrants, whether they are without documentation or with documentation, "stealing our jobs." And the data that I have seen does not necessarily suggest that that is true. The data that I have seen suggests that the skills that normally come into this country complement rather than simply replicate the skills of American workers, and even those American workers are out of the workforce looking for jobs.

Now it is not always the case, but I just wanted to give you a chance to respond to that common criticism. I think you referenced it a little bit in your testimony, but it is something—an important piece of pushback that a lot of us will need back home.

Dr. Kugler. That is a very important issue. As I mentioned in my testimony, the most recent studies actually suggest that, if anything, there may be even gains in terms of earnings for the native-born as a result of immigration.

In fact, the Ottaviano and Peri study finds that an increase in immigration that happened between 1990 and 2004 increased earnings for highly skilled U.S. workers by about one percent.

I also find very similar results. In fact, I looked at a group of people who may be more likely to be substitutable, who may be more likely to be taking the same jobs, and nonetheless I don't find any evidence of that.

So I look at Latino immigration and the impact that they had on native-born Hispanics, and in fact I find that a 10 percent increase in Latino immigration increases the earnings of Hispanics who are more highly educated by about one percent. And it has little displacement effects on even earlier immigrants who may be more likely to take the same jobs.

So what happens is that they tend to specialize. They do different tasks. They take different jobs. And so we actually find very little evidence of displacement and, if anything, positive impacts on the earnings of the native-born. Not only in other sectors, but also because, as I said before, they are also consumers.

So, for example, in retail there are huge increases in employment once immigrants come into local communities just because they demand those services, and so that increases employment in other sectors as well.

Vice Chair Klobuchar. Very good. Senator Wicker, from Kansas.

Senator Wicker. I'm actually from Mississippi, but I've visited Kansas once.

Vice Chair Klobuchar. I'm just kidding, because everyone knows "where's Kansas." Anyway, very good. Good seeing you here.

Senator Wicker. Thank you so much.

Mr. Norquist, very interesting prepared testimony. On page 2 of your testimony, you make the flat statement that people are an asset, not a liability. And I think I can extrapolate from that what you mean is illegal status people and legal status people, regardless, are assets.

On page 3 of your testimony, you talk about the Arizona experience and compare that to New Mexico and California. And basically do I understand your testimony to be that in persuading, one way or the other, illegal immigrants to leave Arizona that has harmed the Arizona economy as compared to California and New Mexico where more illegals were allowed to stay there? Is that your testimony?

Mr. Norquist. On the first part, the people are an asset not a liability is that people produce more than they consume, and that there is the old Malthusian world view that if you have another baby born in the country we are all poorer because you have to divide everything that we have by one more person. The idea of the whole zero population growth campaign which also is associated with and manages the anti-immigrant organizations. Their view is that people are a liability. More people make us poorer. And that is a world view.

I think they are wrong. I think historically with 300 million people in the country we are slightly richer than we were when there were 3 million people in the country. And, that more people in a free society where people are allowed to innovate and operate in a

free society, the country is richer with more people rather than less people.

Senator Wicker. Okay, well apply that then to the Arizona versus New Mexico and California experience. You're saying they're an asset to California and New Mexico, regardless of their legal status?

Mr. Norquist. Well the argument in Arizona at the time was, oh, if these people were not here unemployment numbers would get better, and the economy would get better because they are a drain.

When they left, things got worse. Unemployment was problematic compared to other similarly situated states. We are not comparing them to——

Senator Wicker. Things got worse as a direct result of their leaving? Is that your testimony?

Mr. Norquist. Well, if you have another theory we can look at it, but clearly it did not get better.

Senator Wicker. No, I am just trying to understand what you are saying.

Mr. Norquist. The fellow who put that piece of legislation together got recalled. So somehow it was not viewed as a particularly good idea. And the two Senators from the State are two of the most outspoken advocates of comprehensive immigration, and both got re-elected with those positions. So the idea that Arizona, per se, is happy with that law—what they did is they made it a crime to stand on the side of the road and look for work.

And I am not sure that that was a good idea. Other states have not followed it——

Senator Wicker. I supposed the Governor that signed the law got re-elected, too, so there's always a difficulty extrapolating why people vote for whoever.

Let me ask you this——

Mr. Norquist. Watch the next Governor. We're going to be okay in Arizona.

Senator Wicker. Let me ask you this, Mr. Norquist.

If we did not have the 12 million illegals in the United States now, what would the economic effect of that be?

Mr. Norquist. Well, you can look at where people came in. These are people who there was no legal opportunity to come in and be a farm worker or——

Senator Wicker. Would it be positive, or negative, if we didn't have those 12 million illegal immigrants?

Mr. Norquist. The GDP would be smaller.

Senator Wicker. Okay. So from an economic perspective, should we—how should we be picking and choosing, Mr. Norquist? Who should we encourage to emigrate to the United States? Should we have a point system? And what can we learn from other countries who aggressively encourage immigration, such as Canada, and New Zealand, and Australia?

Mr. Norquist. Well, you've got different examples through American history. I mean, one of the—the reason you have the illegal population is that we once had a guest worker program. We had lots of illegals, and we had a guest worker program. They were arresting 800,000 people a year on the border before Eisenhower put in a guest worker program.

Then they were arresting 45,000 people at the border. Then, the labor unions did not like it, so they got rid of the guest worker program and they were arresting 1 million people at the border, and people came in illegally.

If you don't have a guest worker program or a legal way to come in permanently or temporarily and work, people will come in around the system. And that was created by U.S. law, flawed U.S. immigration law, not having guest worker program, not having enough legal immigration to fit the needs. And a lot of high-tech people never came here, and they went and started companies in other countries.

A lot of work just did not get done. So reforming that is very important. Look, there are all sorts of ways, the whole STEM idea of allowing people who have got certain skills and saying we need X number of guys from the high-tech industry, step one. But there is also a need for people who work in ranching, and dairy, and farming where there are not folks coming in from the domestic market.

Whether you do that through permanent immigration, or through a guest worker program, those positions are needed for the economy. And if you did not have them, we would be worse off.

Senator Wicker. Okay——

Vice Chair Klobuchar. Okay——

Senator Wicker [continuing]. I think I will ask the witness to take that last question about what we learned from other countries for the record and get us an answer on the record. Would you do that?

Mr. Norquist. Sure. Well, the Canadian——

Vice Chair Klobuchar. Very quickly, because Representative Sanchez is waiting.

[The information referred to appears in the Submissions for the Record on page 26.]

Vice Chair Klobuchar. Okay. Thank you very much, Senator Wicker.

Representative Sanchez.

Representative Sanchez. Thank you, Madam Chair. And thank you both, Doctor and Mr. Norquist, for being here with us today.

I would like to say, before I ask this question because this is an incredibly important question to follow up to the Senator's question. I am one of the key sponsors in the House of Representatives for Startup 3.0. I have been a firm believer in STEM, in not only helping our young people born here in the United States to do STEM, but also to encourage those who come from abroad to stay here for awhile. And I feel conflicted about that because if they do return to their country, then they make economic pods there and then maybe we don't have as much immigration going on either.

But I have been a firm believer in Science, Technology, Engineering and Mathematics, my own background, but I also think it is important that we let others in besides just STEM people when we look at our immigration.

I look at my Mom and Dad, both immigrants from Mexico, with not a whole lot of education. My father started in a factory and ended up owning businesses in that industry.

And my mother ended up, after sending seven kids to university, going back and getting her GED and her college and her masters and teaching for 17 years in the public schools young people and really making a name for herself in that industry.

So my question to you is—oh, and by the way, they are the only two parents ever in the history of the United States to have two daughters in the United States Congress. So I think in one generation it is a tribute to hard work, innovation, desire to succeed, love of America, that I believe immigrants in particular bring to this country because they chose to be here.

So my question to you is: Should we not also—because I know there's a lot of desire to limit only to STEM, or people with Ph.D.s, or people with money to be immigrants to this country. I think there is a lot to be said for someone like my father who came here, who learned English here, who worked hard, who got cheated in every single way along the way as immigrants do when they first come to this country, but managed somehow to overcome that and send two daughters to, as he calls it, "the Board of Directors of America, Incorporated."

So you can tell where he's coming from when he says those words. Can you talk a little bit about why it might be important to not just select the cream of the crop from some other countries, but why it is important to let others have a chance at being Americans, if you will?

We'll start with Doctor, and then go to Mr. Norquist.

Dr. Kugler. Congresswoman Sanchez, what an inspiring story of your family. I want to say that, yes, there are important skilled jobs in high-tech manufacturing, but that includes also production workers, not only the innovators and the STEM workers. They are important skilled jobs being held. Some of those jobs being held, the ones growing the fastest and that are expected to grow the fastest in the next 10 years, do not necessarily even require a college education.

There are some important skilled jobs in information, for computer science. Again, some of those jobs are not requiring necessarily very high levels of education. And of course we know that in agriculture there are very important needs.

So I completely agree with you. It is not only skill as measured by level of education, but it is skill measured in terms of particular tasks that can be performed in the job. For example, I want to give the example of agriculture.

In agriculture we know that about 65 percent of those working in agriculture do not have a high school degree. But nonetheless, more than 70 percent of them have been working in agriculture for more than 5 years. Presumably they have very specialized skills to work in the fields and to know what to do in terms of their harvest and post-harvest periods.

So those are skills, even though they're not measured as years of education. Likewise, in production you can think of electricians, carpenters. In construction we hear this all the time. That's why those visas are also very important. It is very important to allow the non-skilled immigration as well to come in and satisfy those skill jobs.

Of course it would be great to train people here in the U.S., and I think that is what Vice Chair Klobuchar said is very important, that we use some of that money also and we get even in high-tech some of those high-tech firms to train our own U.S. workers to do those jobs eventually. But in the short term, those skilled jobs will not be met if we do not let some of those people from abroad come in to meet those needs.

Representative Sanchez. Mr. Norquist.

Mr. Norquist. Yes, American history suggests that you are right. I mean, we did not ask people to have Ph.D.s when they came over the last 300 years. And a lot of people came with raw talent and moved up. So we do immigration and upward mobility both.

Vice Chair Klobuchar. Very good. Thank you very much, for your personal story and what you are contributing today, Representative Sanchez.

Senator Lee.

Senator Lee. Thank you, Madam Chair, and thanks to both of you for being here.

I too am pro-immigrant. I am pro-immigration reform. We are a Nation of immigrants. I hope we always will be. And I agree that we need to make it possible to come into this country through the front door.

I want to start with you, Mr. Norquist, and follow up on a statement you made a few minutes ago dealing with the fact that one of the reasons why we have got 11 million or so immigrants in an illegal status today has to do with the fact that we have had a legal immigration system that does not function properly. It does not operate in such a way that allows our immigration system to keep pace with economic realities, with the demand of our economy.

So one question I have for you is: In your opinion, does the Gang of Eight Proposal deal with this adequately? So separate and apart from the fact that it would take those currently here illegally and put them on a path to citizenship eventually, if it doesn't also deal with the inadequacy of the current visa system eventually that problem is going to creep up and we will have more illegal immigration. Would you agree with that?

Mr. Norquist. Yes. You need to do something about future flows as well as past flows and status.

Senator Lee. Does this deal with that adequately, in your opinion?

Mr. Norquist. In my view, no. I think both the H1B numbers should be more robust. The total number of immigration should be more robust. The guest worker program should be more robust.

Is this progress as opposed—Look, I am all in favor of compromising toward liberty and progress. This is a step in the right direction. Is it a step enough in the right direction? I think it could go further. But the world is a better place if that bill, unamended, passed than if it doesn't pass.

Can it be a better bill with better results in the future? Sure. Absolutely. That is what the amendment process is for.

Senator Lee. Okay. But eventually you think additional adjustments would be necessary in terms of opening up visas, more visas both in high skilled and in nonhigh skilled areas?

Mr. Norquist. And it may be that that can only happen sufficiently after people have seen the success of 1.0 on immigration reform. But that is the direction that history suggests we need to go in.

Senator Lee. Okay. Dr. Kugler, I would like to refer to a statement that was made in The New York Times on March 17th of this year. The Times reported, "And as a side benefit, waiting a decade would mean that the costs of the overhaul would not kick in until the second decade because illegal immigrants do not qualify for government benefits until after they earn green cards. That means the 10-year cost estimates by the Congressional Budget Office would not include the expense of those benefits."

So the question I have for you is: How meaningful are the CBO cost estimates that we have? If they are based on projections that use a 10-year window, and the projected costs of the bill take those estimates outside the 10-year window because they hold off for more than 10 years the moment when there might be some direct entitlement and welfare implications of the bill?

Do you understand the question?

Dr. Kugler. Certainly. Yes. So I understand what you are saying. So we have the 10-year window, and in 13 years you have access to naturalization and citizenship. And you are right that then you won't be entitled to many of those transfer programs, many of those benefit programs. But by the same token, it is true that we know that there is about a 10 percent gain just moving from legal status to citizenship, and that is not taking account of that.

So it works on both ends, actually. You're right that there is that issue about the cost side of things; but on the benefit side there are other things that immigrants will not be qualified for, including some of the access to more entrepreneurship, to loans, to other things that may also contribute in a dynamic sense.

Senator Lee. And so do you think it is a wash, then, when you take those thing into account? Is that what you're saying?

Dr. Kugler. Yes.

Senator Lee. Okay. All right, that leads into my next question, which is for Mr. Norquist, related to the wash point. In his testimony before the Senate Judiciary Committee on April 19th of this year, Douglas Holtz-Eakin noted that the 2007 immigration bill had a cost of $18 billion over a decade, stating that such an amount would be "swamped," quote/unquote, by other changes. And he dismissed it more or less as a budgetary wash.

Do you think Members of Congress, Members of the Senate, or of the House, whether they call themselves conservatives or not, do you think they should think of $18 billion as a budgetary wash?

Mr. Norquist. Well, $18 billion is a significant number. So is $2.7 trillion, which is his estimate of increased revenue over the additional spending from a reform that looks like the one we're looking at now.

So all costs are costs. In this situation, as Holtz-Eakin points out, the growth of the economy and the benefits you get from something like the Senate plan is much greater.

Senator Lee. And could you support it if you became convinced that the net cost was greater—that there was a net cost, and that net cost wasn't offset somewhere else?

Mr. Norquist. Well first of all, the bill has no tax—the Senate bill that one could look at and read, there may be other people's ideas—has no tax increases in it. There are fines for people who cross the border illegally.

Senator Lee. No, I understand. I'm just talking about outlays, if it would result in more outlays.

Mr. Norquist. I am focused on making sure taxes don't go up, and that total government spending as a percentage of GDP goes down. And spending as a percent of GDP would fall, by any way you analyze the kind of reform that the Senate is doing.

I mean, spending goes up every year. Does it go up faster than the economy is the question of how damaging it is.

Senator Lee. Okay. Our Chair has been very patient with me, and my time has expired. Thank you very much.

Vice Chair Klobuchar. Okay, I just have a few questions following up on some of the other Members.

I think it was Mr. Delaney that was talking some, and Senator Murphy, about the effect on the economy in terms of the debt. And one of the things is the Social Security and the fact that in 1950 there were 16 workers to every retiree. Today there are 3 workers to every retiree. And by 2030, there will be only 2 workers to every retiree.

And I know we have talked about reform and other things that need to be done here, but how again does immigration stem that problem? When you look at the number of people, if we were to shut off our borders and not let any immigrants in, or to send back the 12 million that are already here now, or 11 million, or whatever the correct number is, how does that affect Social Security for our existing retirees?

Do you want to start, Dr. Kugler?

Dr. Kugler. So we know that by 2030 about 33 million new jobs will be created just due to the retirement of the Baby Boomers. Maybe 17 million more jobs will be created just because of growth in the economy. We need people to satisfy that demand, and we need people to do those jobs.

But that has important implications as well for the Social Security system. As I mentioned before, currently it is estimated that there's over $1 trillion in the earned suspense accounts. This means that many undocumented have already been putting money into the system. They don't get anything back.

But we also know that after September 11th, from the Social Security Administration, only about 15 percent of the undocumented are paying taxes. It used to be 50 percent before September 11. It became harder, and that fell to 30 percent.

That means that about 70 percent of the 11 million undocumented would now start paying taxes as a result of gaining legal status. And that is very important, especially with the upcoming Baby Boomers retiring, and with many of those people not contributing to the system but getting the benefits on the other hand.

In addition, as I mentioned before, we know that naturalized citizens actually tend to claim less benefits and tend to claim less. So they tend to put more into the system than they actually take out of the system.

Vice Chair Klobuchar. Okay. Mr. Norquist, do you want to add anything?

Mr. Norquist. Well the present entitlement systems, Medicare and Social Security, promise to pay more than people pay in. So I guess every person you add marginally makes things better in the short run, and worse in the long run, assuming you are never going to reform the systems.

But if you are going to reform those systems to become sustainable, which really needs to happen in the next 10 years if the country is going to continue forward economically, then more people into those systems helps.

Vice Chair Klobuchar. Tourism. I raised that in my opening statement, but we have seen this decline in the numbers at the same time we are seeing a growing middle class in other countries that actually have money to come to visit us and spend money here, and buy stuff in America.

What do you think of the provisions in the Senate proposal on tourism, Dr. Kugler?

Dr. Kugler. So as we know, the recovery in the rest of the world, aside from Europe, has been a lot quicker, including in Latin America, Asia, and the rest of the world. So it makes sense for us to bring as much as possible those resources back into the U.S. Just like we export, it makes sense to bring money into the country as well in terms of tourism, and issuing tourist visas as long as people don't overstay on those visas makes quite a bit of sense.

Vice Chair Klobuchar. Very good.

Mr. Norquist. Those provisions are sheer genius.

Vice Chair Klobuchar. Oh, thank you so much.

[Laughter.]

I am going to quote you on that, since I worked on some of them. Thank you.

In the testimony before the Judiciary Committee last month—this will be our last thing on the debt issue with regard to the Heritage study—but you mentioned a number of studies showing the positive impact of immigration reform on increasing economic growth, reducing our debt, adding trillions on the high end in terms of bringing money into the economy. But I was struck by the point you made that replacing immigration reform with an enforcement-only policy would lead to a 2.6 trillion decrease in growth over the same period of time.

Could you talk about that, and again use that to explain what is missing from the Heritage—the current Heritage Foundation Report?

Mr. Norquist. Yes. The Heritage Report, the most recent one, not the earlier pro-immigration, pro-reform, pro-immigrant studies that Heritage did for 30 years before they changed their mind, the current reform doesn't—you know, how's your wife? Compared to what?

How do you like immigration reform? Compared to what? The status quo? To deporting everybody who is here? One of the questions was: What if everybody left?

Well, one of the studies I quoted in the Judiciary testimony was: What if you went and spent the money to grab everybody and put them across the border, the cost there? And that was a rather sig-

nificant—it was not only a huge cost to finding people, grabbing them, and throwing them across the border in terms of dollar amounts, and it is hundreds of billions of dollars to do that if you wanted to; but then the lost productivity was estimated to reduce GDP significantly in the trillions of dollars.

So if you are not going to reform immigration policy and allow earned legal status for people who are here undocumented, what are you going to do? Continue the status quo? In which case, any costs you see now continue into the future. Or, if you are actually going to grab people and throw them across the border and they are not here and they are not being—theoretically not being replaced, there is a dramatic drop to GDP.

Vice Chair Klobuchar. Very good. Do you have any questions in addition, Mr. Hanna?

Representative Hanna. I do——

Vice Chair Klobuchar. Okay.

Mr. Hanna [continuing]. Madam Chair.

Doctor, are you familiar with Harvard Professor George Borjas' work? He indicates that indeed immigrant workers do compete with and do have the net effect of lowering wages.

Just a response? I think it is worth talking about.

Dr. Kugler. I am certainly aware of Professor Borjas' work. We are both members of the National Bureau of Economic Research. I presented my work in front of him in fact, and we have interacted closely with each other.

His work is very thorough, but one of the big issues with his work is that it does not take account of this potential complementarity. It basically assumes that for every one immigrant that is put in, one job among natives will be taken out. That they perfectly substitute each other.

And so once you are making that assumption, you know, the results are going to give what they give. And what he finds is that there is, for every 10 percent increase in immigration there is a 3 percent decrease in native wages, and this is bigger for the less skilled because they are more likely to be substitutable at that end precisely.

So we are aware of those. As I said, some of the recent studies that have come out precisely take account of the fact that immigrants and native-born Americans are not necessarily substitutable.

Representative Hanna. So you do not agree with him?

Dr. Kugler. I think there are some problems with his study, yes.

Representative Hanna. Thank you. I have no further questions.

Vice Chair Klobuchar. Okay. Very good. Well, thank you very much. And this has been a great hearing, one of our most well attended hearings. I don't know if you will beat out when Chairman Bernanke comes, but it was close in terms of the attendance here. And I think it is a testament to both of you, as well as to the importance of this subject, the cutting edge work that is going on right now in the Judiciary Committee, and work that is going on in the House to advance this.

We are actually quite excited about what is happening with this. We are seeing movement for the first time. And as Mr. Norquist

has pointed out, opponents from a few years ago when I was involved back in 2007 and saw how very hard work and a valiant effort on the part of President Bush did not quite make it because people are not ready with these kind of economic arguments that I think are going to be so important to this debate, as well as the security arguments and things that we have been talking about over the last few weeks.

I truly believe that this economic opportunity is ours for the taking. When you look at how we built America, it has always been a country of immigrants, whether it is my Slovenian grandparents, great grandparents, coming over to work in the mines of Ely, Minnesota, or my Swiss grandparents coming over to start a cheese factory in Wisconsin—pretty cliche but true—we are a country of immigrants, and we have to remember that every single day.

And we do not know who is going to invent the next Pacemaker, or Post-It Note, both of which came from my State, but when they do it, we want them to do it in the United States of America.

So I want to thank Chairman Brady for working with me on this hearing, as well as all of the Members that have been here. We will continue this hearing at two o'clock tomorrow for our remaining two witnesses.

Thank you very much, and the record will remain open.

Thank you, everyone. The hearing is adjourned.

Mr. Norquist. Thank you.

Dr. Kugler. Thank you.

(Whereupon, at 11:08 a.m., Tuesday, May 7, 2013, the hearing was recessed, to reconvene at 2:00 p.m., Wednesday, May 8, 2013.)

SUBMISSIONS FOR THE RECORD

PREPARED STATEMENT OF HON. AMY KLOBUCHAR, VICE CHAIR, JOINT ECONOMIC COMMITTEE

Good morning. I'd like to thank everyone for being here today for this important and timely conversation about immigration. I'd especially like to thank our distinguished panel of witnesses, who I will introduce shortly.

Today's hearing comes at a critical moment. Our economy is improving, the private sector is adding jobs, and the housing market is getting stronger. But more needs to be done, and comprehensive immigration reform is key to moving our economy forward. That is why I have scheduled this two-part hearing to discuss immigration's contribution to our economic strength.

We all agree that our current immigration system is broken, and that we'll need to work together in a bipartisan manner to get comprehensive reform done. As a member of the Senate Judiciary Committee, I will be there later this week as we start marking up immigration reform legislation.

There is a large and diverse coalition supporting immigration reform, including business leaders, law enforcement, religious leaders, farmers, labor unions, and people from across the political spectrum. We can in fact see the stretch of the ideological left to the right support for this bill right here at this table. I'd like to introduce our witnesses now.

Dr. Adriana Kugler is a Professor at the Georgetown Public Policy Institute and is Co-Director of the International Summer Institute on Policy Evaluation. She served as Chief Economist of the U.S. Department of Labor in 2011 and 2012. She is a Research Associate at the National Bureau of Economic Research.

Mr. Grover Norquist is the President of Americans for Tax Reform, an organization which he founded in 1985 that works to limit the size and cost of government. Previously, Mr. Norquist served as Economist and Chief Speechwriter at the U.S. Chamber of Commerce and as Executive Director of the National Taxpayers' Union.

I don't know how many times a Democratic Senator has asked Grover Norquist to testify, but I did. We will chalk it up to the strong bipartisan support for this bill.

It's not going to be easy or simple, but this reform is vital to our country. We need to establish a reasonable pathway to citizenship, continue the progress we've made on the border, and make sure our companies are getting the workers they need to compete in the world market.

Immigrants are an entrepreneurial force in America. Look at the Fortune 500 companies. Ninety of those companies were founded by immigrants, and more than 200 were founded by immigrants or their children—including Hormel and 3M in my state. Thirty percent of all U.S. Nobel Prize winners have been immigrants.

I also want to focus this morning on some aspects of comprehensive immigration reform that are very important to moving our economy forward, such as important provisions for ag workers and a pathway to citizenship.

I-SQUARED

Earlier this year I co-sponsored Senator Hatch's legislation, the I-Squared Bill, which is about encouraging engineers and inventors and entrepreneurs to work here in this country. I-Squared reforms the H–1B visa system to meet the needs of a growing science, engineering and medical community.

I-Squared would also reform the student green card system to encourage students who get degrees here to stay here, rather than going overseas to compete against American businesses. The bill would also improve the green card system and change the visa funding structure to improve science, engineering, technology and math education.

I am pleased that the legislation includes provisions very similar to I-Squared.

CONRAD 30

Second, comprehensive immigration reform can contribute to economic strength by allowing doctors to stay in the U.S. to practice medicine, rather than returning to their home country for two years after their residency has ended. We have medically under-served areas of our country—from rural America to inner cities. As just one example, Grand Meadow, Minnesota, lost its local health clinic because they could not find a doctor to staff it.

I sponsored legislation expanding on the former Conrad State 30 Physician Access Act that would allow doctors to stay in the U.S. without having to return home if they practice in an underserved area for three years. Access to quality health care helps businesses attract the employees they need to grow and compete. The Gang of Eight legislation includes the Conrad State 30 provisions.

TOURISM

Immigration reform is critical to another important part of our economy in Minnesota and across the country: tourism. Last year, a bipartisan group of Senators including myself introduced a bill, the JOLT Act, to modernize and expand the Visa Waiver Program and reduce visa wait times.

Tourism suffered a 16 percent decline after 9/11. Every one percent increase in travel spending directly generates 76,700 American jobs. We have seen significant improvements in the tourism industry, which has recovered nearly 60 percent of the jobs lost since 9/11. The tourism industry now supports 7.7 million jobs in the United States.

These are jobs that, like the jobs at our airports, depend on leisure and business travelers from around the world. The immigration reform bill in the Senate includes the JOLT Act, which is a positive step for tourism.

One last point: We know that immigration reform not only benefits our economy in the short term, but it will strengthen our economic foundation for the long term by helping address our national debt.

Former CBO Director Douglas Holtz-Eakin estimates that immigration reform will save $2.7 trillion over 10 years by adding to our labor force, boosting productivity and accelerating economic growth, something we will hear more about from our witness Grover Norquist today, who knows a little bit about the debt.

America must be a country that makes stuff again, that invents things, that exports to the world, and to do that we need the world's talent.

I look forward to our discussion as we dig into the economic impact of immigration. And again, I want to thank our witnesses for being here today.

PREPARED STATEMENT OF HON. KEVIN BRADY, CHAIRMAN, JOINT ECONOMIC COMMITTEE

I want to thank Vice Chair Klobuchar for choosing this important hearing topic that will be explored in a Joint Economic Committee hearing today and tomorrow.

Given the growth gap which America is experiencing—in which the current historically weak economic recovery translates into 100,000 fewer new jobs per month and workers realizing only a mere fraction of the increase in real disposable income during an average recovery—it is important that the Joint Economic Committee carefully and objectively examine the economic and fiscal effects of our current immigration system and proposed reforms.

If we wish to remain the world's largest economy through the 21st century, the economic objective of any immigration reform must be to maximize potential economic benefits for the nation while minimizing costs to hardworking American taxpayers.

My belief is that we must close the back door of illegal immigration so that we can keep open the front door of legal immigration. My frustration through the years of this politically charged debate is that Congress and the White House have failed to agree on a most basic question: What kind of workforce does America need to remain the strongest economy in the world, and what steps do we need to take to ensure we have that 21st century workforce?

There's little doubt the front door of legal immigration is—by all measurable standards – broken. Talented individuals with advanced education, unique skills, and wealth that could be invested here to create new, high-paying jobs for American workers have been excluded or have waited years—even decades—to immigrate legally. And the current visa program for low-skilled workers is essentially unworkable.

Recognizing that other committees have jurisdiction over immigration reform issues such as border security, employer verification, and paths to legal status, the Joint Economic Committee will concentrate on its principal function, which is to provide Congress with analysis and advice on economic issues.

To that end, from our witnesses, I am seeking answers to these questions:

- What kind of workforce does America need to remain the strongest economy in the world, and what steps do we need to take to ensure we have a 21st century workforce?
- In addition to developing more trained American workers, who should we encourage to immigrate to the United States and what should be our priorities? What criteria should we use to evaluate potential immigrants?
- Are immigrants entering the United States under our current immigrant system a net economic benefit or a net cost to the U.S. economy in the long term? What are the benefits and the costs?

- What changes would you make to our current immigration system to maximize the net economic benefits to the U.S. economy, the federal treasury, and the treasuries of state and local governments? How does the bill currently before the Senate Judiciary Committee affect economic growth in the short and long term, including its effects on wages, real GDP per capita, job prospects for Americans, and our long-term global competitiveness?
- As America continues to struggle with historically high budget deficits, are the immigrants entering the United States under our current immigration system a net fiscal benefit or a net fiscal cost to the federal taxpayers and to state and local taxpayers in the long term? How do the taxes that immigrants pay compare with the taxpayer-funded benefits that they receive? And what is the impact of the immigration reform proposal currently before the Senate?
- Finally, what can we learn from the immigration systems in our global competitors such as Australia, Canada, and New Zealand that admit large numbers of immigrants relative to the size of their native-born population?

Just as we need pro-growth tax reform, a rebalancing of burdensome regulations, a sound dollar and a federal government credibly addressing its long term entitlement challenges, America needs a trained, mobile and flexible workforce that meets the needs of a 21st century economy.

I welcome our witnesses and look forward to their insight as we explore the economic effects of immigration reform.

Written Testimony by Dr. Adriana D. Kugler

Professor, Georgetown University

Before the Joint Economic Committee

"Immigration and Its Contribution to Our Economic Strength"

May 7, 2013

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.

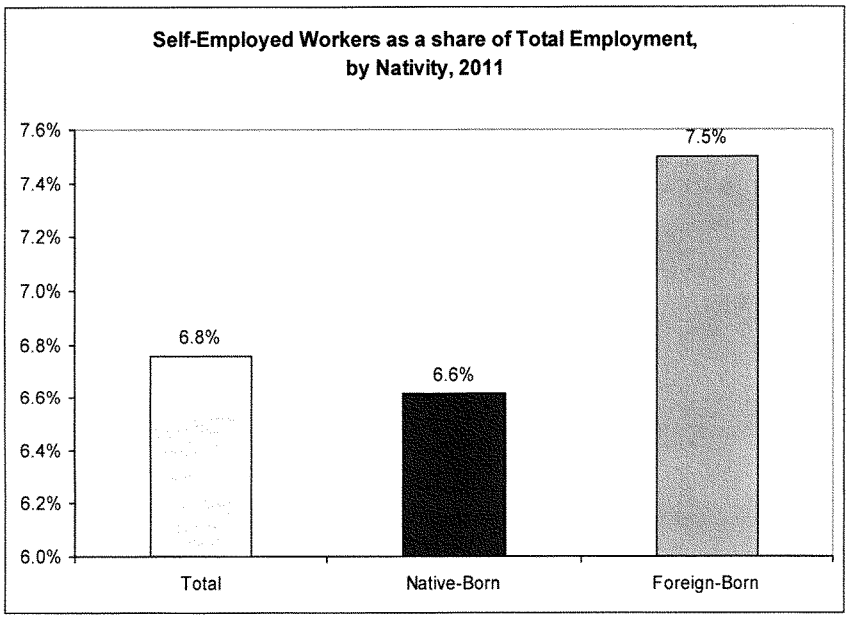
Benefits from Immigrant Entrepreneurship

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 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]

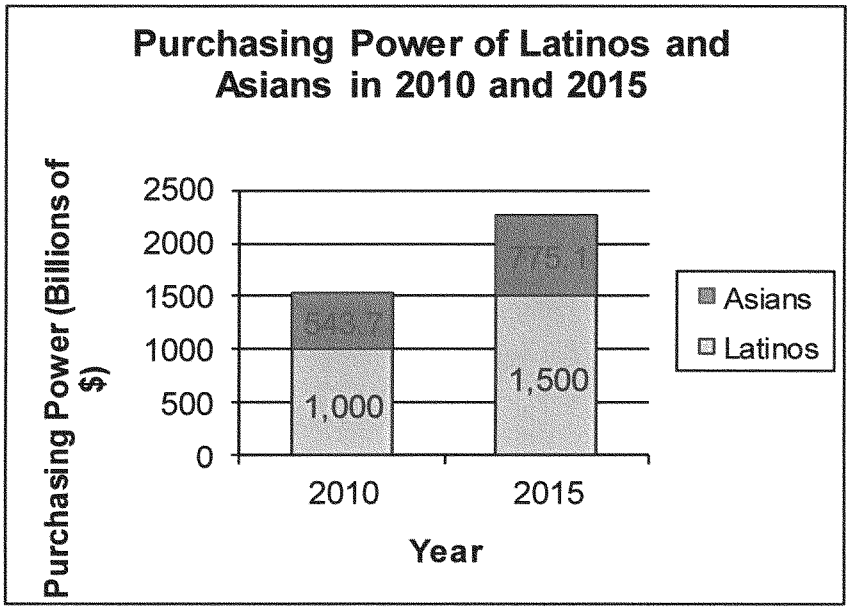
Because immigrants are over-represented both at the very high end and the very low end of the education distribution, this means that immigrants tend to do jobs and perform tasks at work which are different and complement the tasks of U.S. born workers. For instance, foreign born scientists and engineers 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.

[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 original 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.

[iv] Haltiwanger, John. 2012. "Job Creation and Firm Dynamics in the United States," in Josh Lerner and Scott Stern, eds., *Innovation Policy and the Economy*, Vol. 12. Chicago: Chicago University Press.

[v] Haltiwanger, John, Ron Jarmin and Javier Miranda. 2010. "Who Creates jobs? Small vs. Large vs. Young," U.S. Census Bureau Paper No. CES-WP-10-17.

[vi] Fairlie, Robert. "Immigrant Entrepreneurs and Small Business Owners, and their Access to Financial Capital," May 2012. SBA Contract No. SBAHQ-10-R-0009.

[vii] Dissegaard Kallick. 2012. *Immigrant Small Business Owners*. Fiscal Policy Institute.

[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.

[xi] National Survey of College Graduates. 2003.

[xii] BLS. 2011. "Labor Force characteristics of the Foreign-Born Workers," May 24.

[xiii] BLS. 2012. "Labor Force Characteristics of the Foreign-born Workers," May 24.

[xiv] U.S. Department of Agriculture. 2011. National Agricultural Workers Survey.

[xv] Card, David. 2001. "Immigrant Inflows, Native Outflows and the Local labor Market Impacts of Higher Immigration," *Journal of Labor Economics*, 19(1): 22-64.

[xvi] Ottaviano, Gianmarco and Giovanni Peri. 2012. "Rethinking the Effects of Immigration on Wages," *Journal of the European Economic Association*, 10(1): 152-197.

[xvii] Kugler, Adriana and Mutlu Yuksel. 2010. "Do Recent Latino Immigrants compete for Jobs with Native Hispanics and Earlier Latino Immigrants?" in David Leal and Steven Trejo, eds., *Latinos and the Economy*, Chapter 11. New York: Springer.

[xviii] Immigration Policy Center. 2012. "The Political and Economic Power of Immigrants, Latinos and Asians in the United States," Washington, D.C.

[xix] Bovardson, Orn, Hendrik Van den Berg and Joshua Lewer. 2008. "Measuring Immigration's Effects on Labor Demand: A Reexamination of the Mariel Boatlift," *Labor Economics*, 15(4): 560-574.

[xx] Bovardsson, Orn and Hendrik Van den Berg. 2006. "Does Immigration Affect Labor Demand? Model and Test," in Solomon Polacheck, Carmel Chiswick and Hillel Rapoport, eds., *Research in Labor Economics*, Vol. 24. New York, NY: Elsevier.

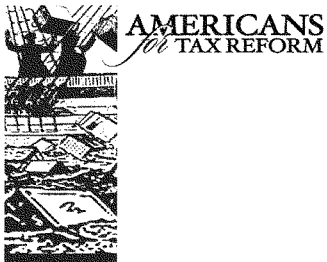
[xxi] Mazzolari, Francesca and David Neumark. 2012. "Immigration and Product Diversity," *Journal of Population Economics*, 25: 1107-1137.

[xxii] Saiz, Albert. 2003. "Room In the Kitchen for the Melting Pot: Immigration and Rental Prices," *Review of Economics and Statistics*, 85(3): 502-521.

[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.
[xxvii] Pastor, Manuel and Justin Scoggins. 2012. *The Economic Benefits of Naturalization for Immigrants and the Economy*. San Diego CA: University of California San Diego.
[xxviii] Lynch, Robert and Patrick Oakford. 2013. *The Economic Effects of Granting Legal Status and citizenship to Undocumented Immigrants*. Washington, D.C.: Center for American Progress.



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Written Testimony of Grover Norquist
President
Americans for Tax Reform

Before the United States Congress
Joint Economic Committee

May 7, 2013

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 are 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 world[3], 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]

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

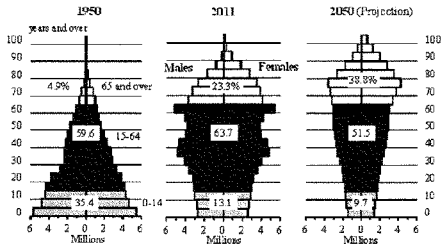
[2] *Ibid.*

[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.*

Chapter 2. http://www.stat.go.jp/english/data/handbook/c02cont.htm#cha2_2.

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.

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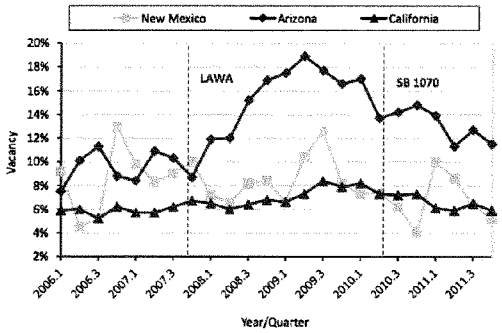
[5] Alex Nowrasteh, "The Economic Case Against Arizona's Immigration Laws," Cato Institute Policy Analysis No. 709, p.p. 2-3, http://www.cato.org/sites/cato.org/files/pubs/pdf/PA709.pdf.
[6] *Ibid. p. 7.*
[7] *Ibid. p. 8.*
[8] *Ibid. p. 5.*
[9] *Ibid. p. 13.*
[10] *Ibid. p. 13.*

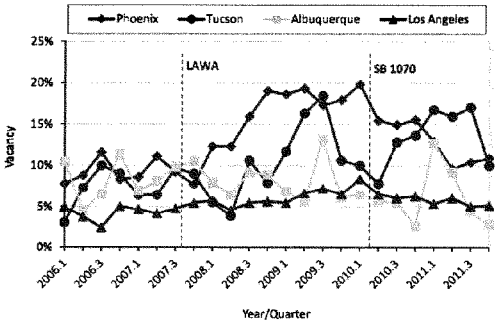
As evidence of that, the state and metropolitan rental vacancy and homeowner vacancy rates shot up for Arizona and Phoenix compared to California, New Mexico, and other major cities in the Southwest.[11]

Figure 7
State Rental Vacancy Rates



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

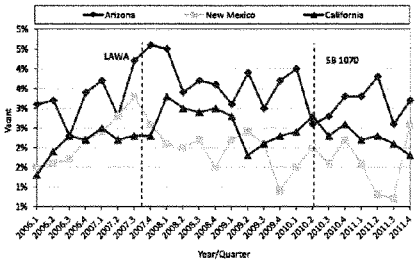
Figure 8
Rental Vacancy Rates by Metropolitan Area



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 Americans[13]), 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.

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[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]

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[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 Steurle 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.

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