U.S. IMMIGRATION POLICY AND ITS IMPACT ON THE AMERICAN ECONOMY

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BEFORE THE

COMMITTEE ON EDUCATION AND THE WORKFORCE U.S. HOUSE OF REPRESENTATIVES

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Wednesday, November 16, 2005
U.S. House of Representatives
Committee on Education and the Workforce
Washington, DC

The committee met, pursuant to notice, at 10:37 a.m., in room 2175, Rayburn House Office Building, Hon. John A. Boehner [chairman of the committee] presiding.

Present: Representatives Boehner, Petri, McKeon, Johnson, Norwood, Osborne, Kline, Inglis, McMorris, Marchant, Fortuno, Foxx, Drake, Kuhl, Miller, Kildee, Scott, Woolsey, Tierney, Kind, Kucinich, Holt, Davis of California, McCollum, Grijalva, Van Hollen, and Bishop.

Staff present: Byron Campbell, Legislative Assistant; Steve Forde, Director of Media Relations; Ed Gilroy, Director of Workforce Policy; Rob Gregg, Legislative Assistant; Richard Hoar, Professional Staff Member; Kimberly Ketchel, Communications Staff Assistant; Stephanie Milburn, Professional Staff Member; Jim Paretti, Workforce Policy Counsel; Molly McLaughlin Salmi, Deputy Director of Workforce Policy; Deborah L. Emerson Samantar, Committee Clerk/Intern Coordinator; Jo-Marie St. Martin, General Counsel; Loren Sweatt, Professional Staff Member; Toyin Alli, Staff Assistant; Jody Calemine, Labor Counsel; Michele Evermore, Legislative Associate/Labor; Tylease Fitzgerald, Legislative Assistant/Labor; Joycelyn Johnson, Minority Clerk/Office Manager; Tom Kiley, Press Secretary; Ricardo Martinez, Legislative Associate/Education; Michele Varnhagen, Senior Labor and Benefits Counsel; and Mark Zuckerman, Minority Staff Director.

Chairman BOEHNER [presiding]. The Committee on Education and Workforce will come to order.

We are holding this hearing today to hear testimony on U.S. immigration policy and its impact on the American economy.

Under Committee Rule 12(b), opening statements are limited to the chairman and ranking member. Therefore, if other members have opening statements, they will be included in the hearing record.

And with that, I ask unanimous consent for the hearing record to remain open for 14 days to allow members' statements and other extraneous material referenced during the hearing to be submitted for the official hearing record.

Without objection, so ordered.

Thank you and good morning. I want to welcome my colleagues on the committee, and I look forward to hearing from our witnesses today.

President Bush has announced his principles for immigration reform, and Congress is expected to act on corresponding legislation in the weeks and months to come. Many of these reforms concentrate on border security and other high-profile issues that have been covered prominently by the media and debated frequently here on Capitol Hill.

However, often overlooked is the impact on workers of current immigration policy and proposed immigration policy changes. Indeed, two of the more important policy discussions taking place here in Washington focus on the need for reform of our nation's immigration laws and the need for a bold approach to keep our economy and our workforce competitive at the outset of the 21st century.

These two discussions happen to intersect at a very unique way, right here at the Education and Workforce Committee, and they are front and center at this hearing today.

For years, this committee has focused on a 21st century competitiveness agenda. From raising the bar in our public schools to ensuring that higher education is within reach of anyone with a desire to obtain it and strengthening and streamlining our job training and retraining programs, our committee has been at the forefront with legislation designed to strengthen American competitiveness in a rapidly changing global economy.

Today, we are going to view this same issue through a very different lens, and we have assembled, I believe, a diverse panel of witnesses to join us in doing so.

The stakes for today's hearing has been set by some very distinct trends, both in terms of immigration, generally, and its impact on the U.S. economy, more specifically. For example, the United States Census Bureau found that in 2004, 34 million of the nation's 288 million people, that is 12 percent of the U.S. population overall, were foreign-born. This is the highest percentage in 70 years.

More specific to the American workforce, one of every seven people working in our nation last year was born elsewhere. That is more than 21 million workers. Just a decade ago that number was closer to one in 10 workers.

As more of our workforce approaches the age of retirement, this trend will only continue and have an increasingly dramatic impact, both in the short term and years down the road, on worker wages, benefits and opportunities. Today, our committee will take its first step in the process of determining just what the impact could be and how Congress should respond.

It is no surprise to say that immigration, both legal and illegal, plays a significant role in our economy. In determining how best to address the issue, I strongly believe that efforts should focus on the causes of the problem, not merely the symptoms. I remain committed and I trust that my committee colleagues do as well, to addressing all aspects of the immigration issue in a responsible fashion. Whether this means through a comprehensive measure or an incremental one, we must avoid disjointed attempts at reform.

Last week, the Congressional Budget Office released a timely study, "The Role of Immigrants in the U.S. Labor Market." This report analyzes the characteristics of the immigrant workforce and its effect on U.S. wages and the economy.

We are fortunate to have the Director of the CBO, the Honorable Douglas Holtz-Eakin with us today to present the findings of this important study. The Director recently announced that he will be leaving the CBO by the end of the year, and we thank for his years of service at CBO.

So many congressional hearings have a clearly determined agenda, even before the gavel to order. However, today, I think we are going to have a hearing in the truest sense of the word. We will hear testimony from a philosophically diverse panel who will share with us their unique perspectives during this information gathering forum.

We are here to listen, we are here to ask questions and to learn just what the broad and complicated subject of U.S. immigration policy means to the American worker, their families and our nation's economy. Simply put, this issue is too important to leave to the law of unintended consequences, and that is why the testimony we are about to hear, I believe, will be valuable for all of us.

And with that, I would like to yield to my friend, the gentleman from Arizona, Mr. Grijalva.

Prepared Statement of Hon. John A. Boehner, Chairman, Committee on Education and the Workforce

Thank you all for coming. I welcome my colleagues on the Committee, and I look forward to hearing from each of our witnesses.

President Bush has announced his principles for immigration reform, and Congress is expected to act on corresponding legislation in the weeks and months to come. Many of these reforms concentrate on border security and other high-profile issues that have been covered prominently by the media and debated frequently on Capitol Hill. However, often overlooked is the impact on workers of current immigration policy and proposed immigration policy changes.

Indeed, two of the more important policy discussions taking place here in Washington focus on the need for reform of our nation's immigration laws and the need for a bold approach to keep our economy and our workforce competitive at the outset of the 21st Century. These two discussions happen to intersect in a very unique way right here at the Education and the Workforce Committee, and they are front-and-center at this hearing today.

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The stage for today's hearing has been set by some very distinct trends—both in terms of immigration generally and its impact on the U.S. economy more specifically.

For example, the United States Census Bureau found that in 2004, 34 million of the nation's 288 million people—that's 12 percent of the U.S. population overall—were foreign born. This is the highest percentage in 70 years.

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With that, I yield to my friend Mr. Miller.

Mr. GRIJALVA. Thank you very much, Mr. Chairman, and I want to thank Ranking Member Miller for the opportunity to open this hearing. I want to thank you because I look forward to the witnesses, their testimony about U.S. immigration policy and the impact on our American economy.

No serious effort has taken place on immigration reform in over 20 years at the Federal level, and it is a challenge before this Congress to do just that, to deal with immigration reform and deal with it in a solid way. If there is one thing all sides of the immigration issue can agree on, it is that the present system is broken. And because it is broken, it requires that we have a mini-tiered approach comprehensive approach to immigration reform.

And immigration reform is complex, it is a vexing proposition, it demands solid information, it demands analysis, it demands facts, and I want to thank you again for beginning the process on a fact-gathering basis. Because immigration is an issue that is easily exploited. When I said it is complex and vexing it can be easily exploited, and it can be made simplistic, and there are no silver bullets in solving this issue.

We have to talk about the impact of globalization. There is a simplistic definition that globalization is just about the movement of capital and goods and services across this globe. Well, labor and workforce also moves across this globe. One out of every four workers in this world are moving from their country of origin to another country to work. And so that is a phenomena of globalization, that is a phenomena of free trade, that is part of the solution when we deal with that.

And like I said, this is an issue that is easily exploited, and unauthorized workers and immigrant workers in this country, as workers, are also easily exploited. There is no silver bullet, as I said earlier. Enforcement only is not the entire solution. Employer

sanctions only are not the entire solution, mass deportation is not the entire solution. It requires a comprehensive approach, and I hope through the testimony today we begin to talk about the component of education and workforce protection that is part and parcel of a long-term consistent immigration reform in this country.

Education enhancements are vital, workforce protections are vital, minimum wage is vital, displacement of low-wage workers, native low-wage workers is an issue that must be confronted and dealt with, and I believe in the end run there is a net benefit to immigrant workers, a positive equation in the ledger, what they bring to this economy. But I believe that today's witnesses are going to tell us one of the keys for immigrants and native-born Americans alike is education.

And we should be expanding education, not cutting it. We need more programs to help immigrants learn English and job skills, not less. And that is the direction this country needs to be going.

But, Mr. Chairman, I want to thank you. This issue requires some dispassionate dialog. This is does require facts, empirical facts that we can begin to craft a comprehensive immigration reform that both protects workers, raises wages and provides job security for working families in this country.

And I look forward to the witnesses, and I yield back and appreciate the time.

Chairman BOEHNER. Let me thank my friend from Arizona for his opening statement and suggest that I am not sure there was anything that was said in your opening statement that I disagree with.

Let me caution members that there is no agenda here. This is a fact-finding hearing to get to the bottom of the issue, and I think all of you understand that this issue can be somewhat sensitive. There are passionate views on both sides of the issue, and I would just ask members today to keep that in mind as we hear from our witnesses and we ask our questions.

With that, we have two panels of witnesses today. Our first panel is the Honorable Douglas Holtz-Eakin. He is the Director of the Congressional Budget Office. Previously, he served as Chief Economist for the President's Council of Economic Advisors and is a trustee professor of economics at the Maxwell School at Syracuse University. Dr. Holtz-Eakin has also served as chairman of the Department of Economics at Syracuse University.

With that, Dr. Holtz-Eakin, it is all yours.

STATEMENT OF HON. DOUGLAS HOLTZ-EAKIN, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Mr. HOLTZ-EAKIN. Chairman Boehner, Mr. Miller, members of the committee, the CBO is very pleased to be able to be here today to discuss this important topic.

Before doing that, if I could, I want to thank the chairman for his gracious introductory remarks and recognize for the committee Donald Marron, who is sitting behind me, who will take over as acting Director of the CBO upon my departure.

My oral remarks will draw on three recent CBO studies in the area of immigration, and I will try to make a couple of points: No. 1, that the foreign-born are an important part of the population, as

the chairman recognized in his remarks; No. 2, that legal immigration is largely driven by the policies uniting families, although there is a smaller and explicit economic objective; No. 3, immigration has an important economic benefit.

Those benefits accrue to the country of origin for the immigrant in the form of returned capital and sometimes the immigrant themselves. It has benefits for the United States in the form of additional members of the labor force and the skills that they bring, and also their consuming patterns as households. It has benefits for the immigrants themselves in the form of their earnings, and those will largely reflect their education.

And then, No. 4, immigration also impacts the native-born, and in the labor force this impact has been largely focused on a sometimes contentious debate over the impact of immigration on the wages of the native-born.

So this is a lot of material, and what I thought I would do is use some slides, which are in front of you and hopefully will show on the screen, and walk through these points quite briefly.

So the first slide—if we could go to the next one, thank you—makes the point that the chairman made in his opening remarks that immigration is a very large part of the population of the United States. The green line shows the rise in the number of foreign-born in the U.S. population, and since the 1970's you can see the sharp swing upward. The blue line shows immigrants as a fraction of the population and indicates that that fraction is now at levels comparable to the 1930's.

And so we have seen a large influx of the foreign-born of the United States, and they constitute a large fraction of the population. In particular, they are now roughly one in seven members of the labor force.

In the next slide is point No. 2. Legal immigration is largely driven by a policy which is to unite families. As the slide shows, family based immigration is about 66 percent of the immigrants in 2004. Those with explicit economic objectives are about 16 percent, the employment-based preferences that are in the immigration law. And, of course, there is a fraction of immigration to the United States which is unauthorized or illegal, and although the numbers there are far less precise, most estimates fall in the range of 7 million to 10 million current unauthorized immigrants in the United States.

The composition of the foreign-born has changed dramatically. The notable feature of the next slide is the sharp rise in the fraction of the foreign-born that come from Mexico and Central America, the Americas, and also the rise in immigration from Asia as opposed to the large traditional concentration in Europe. And as we will see, many of the key features of the immigrant story break along those dimensions.

Turning to the economic benefit, the first I mentioned was there are benefits to the country of origin. In a paper we released earlier, CBO documented the flow of remittances, payments back to the country of origin by the immigrants. This slide is simply meant to remind members that in some cases these are substantial parts of capital in-flows to these countries; in many cases, larger than offi-

cial development aid and other official sources and in some cases also larger than private capital in-flow.

So there are benefits that flow back in the form of monies to the originating countries. There are also benefits that come in the form of workers returning to the country of origin. About 30 percent of immigrants, on average, do return. They bring back with them not just dollars but skilled learned in the American labor force.

At the heart of the debate in the United States, of course, is benefits to the U.S. economy. The key features of the next slide are, No. 1, the quantitative importance of immigration. Between 1994 and 2004, the labor force grew by a bit over 16 million members. Of that rise, 8.5 million were foreign-born, so a bit above 50 percent of the growth in the labor force was in the form of immigration. Of that, an enormous fraction is from Mexico and Central America, and the rest of the world constitutes a fair amount as well.

The difference between immigrants between those groups are largely in terms of the skills that they bring to the labor force. As this slide shows, the native-born have almost 14 years of average education in 2004. Immigrants from the rest of the world, a little bit above that; whereas, those from Central America and Mexico, a bit above 9 years of education. And those skills will determine, to a great extent, their success in the labor market.

Not all labor markets have the same impact, and there are six states which are the dominant states which receive most immigration into the United States. This slide shows you that in California, for example, one in three members of the labor force are foreign-born. In the next of the big five, about one in five are foreign-born. In contrast, for the rest of the country, it is a much smaller number, one in 12. And, again, the share divergence between those immigrants from Central America and Mexico and the rest of the world shows up there as well.

Finally is the issue of the earnings of both the immigrants and the native-born interacting in the labor force. And here this slide compares the earnings of workers who immigrate directly. So on the top line, a male born in Mexico or Central America earns about half of what a native-born worker would earn. In contrast, the next generation, a person whose parents immigrated from Mexico or Central America, earns nearly 80 percent.

And so the message of this slide is twofold. First, immigrants earn less, although they earn more if they have more education, going to the right, and children of immigrants tend to look more like the native-born than did their parents.

And in closing, let me just say that the final impact, which has attracted so much attention, is the impact of immigration on wages of the native-born. And it might seem obvious that the arrival of more workers would reduce their wages, but in the survey of the research, the CBO came to the conclusion that the ultimate impact is very difficult to quantify.

And this is a tribute to the flexibility of the American labor market in which there are a variety of adjustments that can take place in response to an influx of immigration. Additional capital and incentives for the native-born to acquire more education are two of

those key adjustments. And the horizon over which one looks also matters, direct impacts versus those 10 years later.

So I acknowledge that is a lot of material very fast and not as fast as it should have been, but I look forward to the committee's questions.

[The prepared statement of Mr. Holtz-Eakin follows:]

The CBO paper, "The Role of Immigrants in the U.S. Labor Market," can be viewed on the Internet at:

http://www.cbo.gov/ftpdocs/68xx/doc6853/11-10-Immigration.pdf

Chairman BOEHNER. Well, let me thank you for your testimony. And I probably should have told you upfront that while typically witnesses have 5 minutes to present their testimony, given that you are by yourself on this panel and the importance of what you had to say, you should have ignored it.

Last year the committee began its examination of the role of knowledge in our increasingly diverse 21st century workplace and in an economy based on knowledge and services far more than manufacturing or goods.

In that light, one things that seems to be clear from the CBO's analysis is the fact that irrespective of immigration status, whether you are a native-born or a foreign-born, and no matter what part of the world you come from, perhaps the most significant factor ensuring prosperity is education.

As chairman of this committee, I am proud of the work we have done by strengthening elementary education for all Americans through "No Child Left Behind," how we have improved our job training systems and other education initiatives that we have undertaken across the board.

But my question to you, does education represent the most accurate prediction of economic success?

Mr. HOLTZ-EAKIN. Certainly, for either the foreign-born or the native-born, education is the dominant characteristic for success in the labor market.

Chairman BOEHNER. You talked about the impact on wages, and it was at the end of your testimony, and I know you thought you were out of time. Can you expand a little bit on what you did find in terms of our immigration policy, both legal immigrants and illegal immigrants, and what impact it has on wages in the marketplace?

Mr. HOLTZ-EAKIN. Certainly. I thought in mastering the talent of talking so very fast I got it all in, but let me say it slower. There are two sides to this coin. Certainly, the dominant impact for those coming into the United States is what skills they bring and their education. And the report, I think, lays out very clearly that those with lots of skills, particularly those outside of Central America and Mexico, have earnings that are comparable to the native-born and their children even more so.

For the native-born in these labor markets, it might seem just common sense that with more competition from the immigrants their wages are going to fall, and so we looked at the literature that tried to analyze this phenomenon and really came to the conclusion that there is not a striking bottom line to the large amount of research that has been targeted at this question.

Now, why might that be the case? First is that it depends about the horizon over which you look. If you look at a large influx of immigrants and you look shortly after their arrival, certainly that is a lot more people competing in that labor market. You would expect to see a bigger impact. If you wait 10 years, you might see much less. And so that is an important distinguishing characteristic in the study is you get a different answer depending over how far you look out.

Second is that there are ways for the participants in the labor market to adjust. The native-born workers seeing greater competition, say, for a job that doesn't require lots of education may choose to get more education. And so, again, with time, the native-born population changes its characteristics in response to the immigration, and you get a very different answer.

And employers with an influx of workers who, again, may have low skills where that has been the center of attention may take that opportunity to invest in greater capital. And the striking characteristic of the U.S. economy over long periods of time is that investments in capital raise the productivity of workers given whatever skills they may have, and the workers benefit from that. They capture part of those increased gains in the form of higher wages. So, again, you get an offsetting effect. It makes it hard to find a direct impact from immigration on the wages.

I think that is the key in thinking about this: You want to look at different time periods, and you want to ask the question clearly, do we or do we not allow both other participants in the labor market and employers time to adjust? And if so, you will see different answers.

Chairman BOEHNER. In your slide where you talk about the average weekly earnings of various full-time workers, the first line, you talk about a worker born in Mexico or Central America, male, makes 54 percent of the average wage, but a parent from Mexico or Central America makes 79 percent.

Mr. HOLTZ-EAKIN. A worker whose parent was from.

Chairman BOEHNER. Correct.

Mr. HOLTZ-EAKIN. This is the next generation.

Chairman BOEHNER. Help shed some light on that for us. Is that acquiring skills?

Mr. HOLTZ-EAKIN. This is the mirror image of education matters in the same way that, for example, the average education of an immigrant from Mexico or Central America is about 9 years. In our study, you find that instead of being well behind the native-born population, the children catch up. They have nearly the same education, about 1 year less, on average, than do the native-born. So one generation later they have acquired more education and they, as a result, are rewarded comparably in the labor market.

Chairman BOEHNER. What are the typical skill sets that employers would be looking for when they are looking at hiring? And obviously there is some pool of immigrants, typically, in line there.

Mr. HOLTZ-EAKIN. I don't have a hard and fast answer. It is going to differ by employer. But, obviously, in addition to the details of matching the person skills to the job requirements, there are some threshold skills that matter. The ones that come up right away are mastery of the English language and general education

that allows the worker to respond to new circumstances. Employers are looking for workers who can do more than one thing and show some initiative, and those two characteristics, I think, are the ones that stand out.

Chairman BOEHNER. My time has expired.

Let me yield to my friend from California, Mr. Miller.

Mr. MILLER. Thank you, and welcome to the committee, and let me join in thanking you for all of your work on behalf of the Congress.

Mr. HOLTZ-EAKIN. Thank you.

Mr. MILLER. Wish you well.

What do you know from your study in terms of the contributions of immigration, the necessary contributions of immigration to the American workforce over the next 10, 25 years? It is very often stated that we are going to need to continue in-flow of immigration. Obviously, this country was built on that in-flow, but you are going to need this in-flow to keep the American economy going, to provide the human resources to the capital resources to keep it going. Where is that going, and how is that measured?

With the current immigration population, the birth rates of that population, I assume that when people look at that model they look at the overall population increases and educational attainment, the rest of that for the whole population. So what does that tell us about the future? Just leave out legal, illegal for a moment. What are the demands that this economy is anticipating to put on the need for immigrants?

Mr. HOLTZ-EAKIN. If you look, first, just at counting bodies, the striking fact is that the native-born population in the United States has a below replacement rate level of fertility, so that mechanically, in the absence of immigration, the population will not grow; in fact, it will decline.

Mr. MILLER. That was your first chart that we were seeing there.

Mr. HOLTZ-EAKIN. And we have spelled that actually in greater detail in other reports the CBO has done over the long term. I would be happy to get those to you.

So just in bodies it is clear that immigration is central to the future demography of the United States. Part and parcel to that is the future looks even more like the past 10 years under those circumstances. Half of the labor force growth was by immigration in the past 10 years. In the future, it is obviously central to labor force growth.

Below counting just the number of bodies, it will depend on the characteristics of the workers that come in, and I hope that the message that the report conveyed was that is a first-generation impact. The characteristic that matters the most in the labor market is education, for example. The next generation looked much more like the native-born and as a result the skills that they will have are more dictated by what they do here than their country of origin.

Mr. MILLER. But the demand is going to continue to be there. How we manage that population, again, whether it is going to come illegally or legally and what restraints we are going to put on that, the fact of the matter is the demand is going to be there from the internal growth of the economy.

Mr. HOLTZ-EAKIN. The mechanics of economic growth are that you get more in the future by adding more workers and more skills for those workers, adding more capital through saving and accumulating assets for the future and by adding new technologies that allow you to use both the capital and the workers more effectively.

If you cut down on the ability to grow resources in the human part, you would have to rely much more heavily on the others in order to continue to have rates of growth that are comparable in the future.

Chairman BOEHNER. Would my colleague yield for a moment? I want to get to the point of what Mr. Miller is bringing out here, just as a basis for where our economy is going in the future. We have got the largest generation in American history on the verge of retirement, and we are going to live longer, healthier, more productive lives than any generation in history. But we are followed by succeeding smaller generations of Americans. And if we are going to see growth in our economy and growth in GDP, we don't have a domestic labor force in order to support that. Is that the point that you are making?

Mr. HOLTZ-EAKIN. You have got three things going in to get more coming out. It is people, capital and technologies. And if the labor force doesn't grow, it is going to be much more difficult to get comparable levels of overall economic expansion in the future.

Chairman BOEHNER. And I think the point that you made in your opening testimony and to Mr. Miller is that over the last 10 years half of our growth in the labor market has come from foreign-born workers.

Mr. HOLTZ-EAKIN. Yes.

Chairman BOEHNER. Thank you.

Mr. MILLER. Thank you.

Chairman BOEHNER. The Chair recognizes the gentleman from California, Mr. McKeon.

Mr. MCKEON. Thank you, Mr. Chairman.

I also want to thank you for the work that you have done at the CBO——

Mr. HOLTZ-EAKIN. Thank you.

Mr. MCKEON [continuing]. And wish you all the best.

I am from California and we have—I just bought a new home, and most of the people that worked on the home from all phases were speaking Spanish. I speak Spanish, so I was able to communicate a little bit. And I notice, as I see people working in the—doing landscaping, all of them are speaking Spanish. All of the people that are doing the landscape maintenance seem to be speaking Spanish, and as you go to restaurants, hotels, service industries, many of them are speaking Spanish.

Now, what I am wondering is, I see the high percentage, one in three workers in California comes from Mexico or South America. How do you get these numbers? How do we know how many people are here legally and how many people are here illegally? How do you find those numbers out?

Mr. HOLTZ-EAKIN. There are a variety of data sources to which one can go. There are the administrative records for authorized immigration, and one can keep track of those who entered either on

family preferences or those targeted toward economic reasons. One can also go to survey data census and get information from those.

And then one is left with the difficulty in both those circumstances of trying to guess at the fraction of the population that is here illegally, that does not show up in the administrative data and may not answer the questions on a survey in a way that revealed that they were here on unauthorized status.

And so that is the part of this that is, quite frankly, the most difficult to judge. And the estimates range pretty widely, 7 to 10 million illegal immigrants is a standard bound for that estimate at the moment.

So I won't pretend to say that we have a great deal of precision in all parts of these calculations.

Mr. MCKEON. Most of the trades that I mentioned are—I mean, some of the jobs are pretty well paid, I would think, in the construction industry. Most of the service jobs would be on the lower scale, I would think, of economically—we haven't talked at all about H1B visas or people that we are bringing in that are on the higher end of the scale. And I would imagine that if we have figures, most of those people that are on the higher end of the scale would be here legally. Do you have anything that shows any——

Mr. HOLTZ-EAKIN. We can get back to you with what we have on that, but I don't think we have a real discrete breakdown in the illegal immigrant population in terms of the skills they brought.

Mr. MCKEON. This illegal versus legal causes so much—you know, when we have town hall meetings, we get—it really is emotional, the kickback on people. But I think if you took all of the people in California that are there illegally, and, again, we are just guessing at these numbers because nobody really knows. You can't ask people. In my area where I live, you can see people standing along the street waiting for jobs, you can see the same thing here in Northern Virginia, and I think people probably assume that they are here illegally, but nobody really knows.

If all of those people were picked up and removed from the country immediately, I don't know what that would do to the economy. Is anybody even thinking about that or looking at that? I know there are a lot of people that would like to see that done, but it seems to me that the service industry, the agricultural industry, the construction industry would basically shut down where I come from.

Mr. HOLTZ-EAKIN. Let's take 10 million as a round number, easy to work with. Suppose there are 10 million members of the labor force who are here illegally and they were suddenly to disappear from the economy. The labor force is 140 million people, roughly, so you are looking at something that is a bit under 10 percent of the labor force, 10 percent of the available labor to the U.S. economy. If that were to be unavailable in a very short period of time, that would have a dramatic economic impact, there is no question.

Mr. MCKEON. Mr. Chairman, my time is up, but if I may ask just one more question. One of the things that has really concerned me is it is fairly easy to get a phony Social Security card. If a person gets one of those, goes to an employer, gets a job, the Social Security is withheld from their wages, sent back here to Washington, what ever happens to that money? It is not paid out because some-

body's not going to collect on a phony Social Security card. What happens to that money?

Mr. HOLTZ-EAKIN. The Social Security Administration has a fund where it has earnings records that it can't match up with beneficiaries, either present or in the future, and the presumption is that fund reflects the contributions of those who are here illegally who are paying Social Security taxes, and it has accumulated over the years to be a large sum of money—over $400 billion.

Mr. MCKEON. Four hundred——

Mr. HOLTZ-EAKIN. Billion dollars.

Mr. MCKEON. With a "B."

Mr. HOLTZ-EAKIN. With a "B."

Mr. MCKEON. So what is the incentive then for the government to fix this problem?

Mr. HOLTZ-EAKIN. I think you are in a better position to answer that question than I am, sir.

[Laughter.]

Mr. JOHNSON. Thank you.

Thank you, Mr. McKeon.

The Chair recognizes the gentleman from Virginia, Mr. Scott.

Mr. SCOTT. Thank you, Mr. Chairman.

I wanted to follow up on that same line of questioning as to what effect immigration policy has on the long-term solvency of Social Security. You have kind of talked around it. Are we suggesting that a more liberal immigration policy might solve the Social Security problem?

Mr. HOLTZ-EAKIN. I am not suggesting that. I would say that the broad demography of the country is heavily influenced by immigration, particularly going forward, no question about that. It would be the case that if immigration were to increase above the levels expected in projections such as ours, that we would age slower, and that to the extent that the form of people paying Social Security taxes and not yet getting benefits, it would transitorily put off some of the difficulties in financing Social Security.

It would not, however, solve the problem over the long term. Eventually, those same immigrants would collect immigrants, and that would go the wrong direction from the point of view of Social Security finances. So the key policy problem of benefits promised being above revenues dedicated to Social Security would remain, it would just change the timing and the scale.

Mr. SCOTT. But the solvency of Social Security can be affected—the calculations are affected by immigration policy.

Mr. HOLTZ-EAKIN. Certainly.

Mr. SCOTT. H1B visas, I have heard some say that they actually increase employment and help the economy, because for every one that comes in, they have to have assistance and everything, and they help stimulate the business. What effect do H1B visas have on the economy?

Mr. HOLTZ-EAKIN. We have not done a direct study of H1B visas. I would say that in trying to answer the question about how immigration affects the wages of the native-born, it is those kinds of adjustments that are important. When a person arrives in the labor market, they arrive with several things. They arrive with skills. H1B visas are targeted to high skill individuals. They sometimes

bring assets, and that wealth is available to the economy. And they bring consumer demand.

The next impact, as a result, can be to attract additional workers that are a complement to that skill, make capital investments more profitable because they complement that skill, and the earnings and the wealth are available for purchases. So it is clear that those impacts are present. Separating out just the H1B visas versus others, we haven't done that.

Mr. SCOTT. We can't be the only country that has an issue of immigration. What other countries do? How do our immigration policies compare to immigration policies of other countries?

Mr. HOLTZ-EAKIN. I am not conversant with the law on immigration policies in other countries. I do know that from an economic perspective, the basic population dynamics that are present in the United States are both more dramatic and happening quicker in Europe, which is aging quite rapidly. It also will be true in the future for China, which will age very rapidly. And in all those circumstances, immigration has the potential to change the future demography.

And so I think while I am not conversant with the laws, the fundamental pressures are the same in many other parts of the globe.

Mr. SCOTT. If we wanted to limit immigration, how realistic is the border control as a strategy?

Mr. HOLTZ-EAKIN. Not my area of expertise.

Mr. SCOTT. Other than border control, what other strategies would be available to try to discourage illegal immigration?

Mr. HOLTZ-EAKIN. Immigration is driven by the combination of push and pull factors. So conditions in the country of origin, the economic and social conditions are an important part of the decision to leave that country.

To the extent that if you look at the kinds of policies that the U.S. has adopted, some reflect economics, some reflect families, but some also reflect the desire to provide asylum and refuge for immigrants. So there are political and social aspects to the country of origin that the U.S. may be able to influence. There is the economic prosperity in the country of origin an the ability to influence that is far more limited, obviously.

So there is a set of things that may or may not have dramatic impacts but which one could go to.

On the pull side, it is the performance of the U.S. economy, which has been simply outstanding by international standards. It is a country that has grown rapidly, certainly compared to other developed countries. It has, as a result, greater opportunities for individuals when they come and join the labor force. It rewards labor market skills, so if you have skills and can display them, that is an opportunity.

So in between you can put an immigration policy, maybe including border controls, but the core issues are what are situations in the countries of origin, what are the attractions in the United States?

Mr. SCOTT. Thank you, Mr. Chairman.

Mr. JOHNSON. You bet.

Let me ask you a question. You indicate that you understand what the education level is, but if we have got—and you say 7 to

10 million. I have heard numbers higher than that. Obviously, we have got a lot that are illegal that you don't have your finger on. So how do you extrapolate between those that are really illegal and here that we don't know about, and how do you judge the education level?

If they are from Mexico or Central America and heavily concentrated in certain industries, a lot of which require very little formal education, is there any evidence in your instance that those workers are moving out of those jobs and into occupations that require more advanced skills or are they likely to remain stationary in the certain jobs and industries of the lower skill level?

Mr. HOLTZ-EAKIN. First, as I stressed, I would not oversell the precision of any particular estimate of the size of the illegal immigrant population. The numbers that we presented today are based on census data, so the questions that one would ask a respondent would be, what is your country of origin, the United States or otherwise, and how much education do you have. And that is the foundation for the numbers that we presented.

In terms of post-entry mobility, the evidence is that those individuals in the labor market, native-born or foreign-born, who have more experience get paid more, so there is a natural return to continued participation in the labor market. There is some evidence as well that the foreign-born actually get a little faster growth than do the native-born, so that with additional experience they will make more, and often that involves changing jobs. We don't have a particular study of switches from occupation to occupation, but the profiles are consistent with that.

Mr. JOHNSON. Well, you said you had no indication of H1B visa people, but do you have anything on student visas?

Mr. HOLTZ-EAKIN. Similarly, no.

Mr. JOHNSON. You haven't done a study on them, is what you are saying.

Mr. HOLTZ-EAKIN. No, but if there are details that we could provide, we would be happy to work with you on that.

Mr. JOHNSON. Thank you. You know the higher percentage of immigrants in 6 states, and I wonder if you can describe the labor market in those states compared to the other 44, which only receive 8 percent of the immigrant population. Are they being admitted on an employment-based preference or through family connections or what? Is it just easier for them to get to those states?

Mr. HOLTZ-EAKIN. I don't have those details on either side, either the characteristics of the categories for which they were admitted or the characteristics of the native-born population. But I guess in a hearing on immigration, which is global mobility of labor, what I would certainly urge the members to remember is that there is national mobility of labor as well, and to think of these states as labor markets isolated from other states is certainly misleading.

The native-born population dominantly arrives in these six states, but we have seen over periods of a decade far greater prevalence in other states as well. So there is internal migration of the foreign-born and there is well-documented migration of the U.S. native-born population. It is a very mobile society. It is not really safe to say there is a California labor market and a New York labor market.

Mr. JOHNSON. OK. Well, you know, some of them come in, they are other than Mexican or Central American, but they give them Mexican names, and how do you assess that information? Because in Texas alone, just in the last 6 months, we think there are around 60,000 that have come in illegally that are other than Mexican. How do you determine what that segment of population does or do you?

Mr. HOLTZ-EAKIN. We rely on other sources, and I will have to get back to you about the details of how they do the classification.

Mr. JOHNSON. Thank you very much.

The Chair recognizes Mr. Grijalva for 5 minutes.

Mr. GRIJALVA. Thank you. Let me just go back, and I think it is just one question, and it has probably been asked already.

The correlation established between education, English acquisition, in terms of not only mobility in the labor market but the rising standards of wages, if you could just elaborate for the committee and for myself on that point.

Being first-generation American, my dad came from—he was foreign-born, that seems to be a traditional pattern amongst first-, second-, third-generation native-born Americans that you see that economic-social progression as it goes along. And if you could just elaborate on those points.

Mr. HOLTZ-EAKIN. Well, I think that the key features of that are, No. 1, the labor market rewards education, and that is a well-documented empirical regularity in the United States, and that reward education, sometimes known as the skill premium, sometimes known as—if you get a college degree what the bonus is in lifetime earnings for doing that. That is not something that is different for native-born versus foreign-born workers. The labor market rewards skills.

The table I showed, which has way too many numbers in it, was designed to show that for any particular set of immigrants, higher skills are better, and that seems to be a clear empirical regularity, that what we have seen in the foreign-born population is this bifurcation between a large fraction from Mexico and Central America who arrive with relatively low education and the rest of the world, which arrives with relatively high education, and the earnings reflect that. The latter group looks much more like the native-born population in its earnings.

And then the third point is simply that children of immigrants look very different numerically than do the parents, and that is because underneath their rising earnings is rising educational attainment. And so I think that whether the immigrants of the United States acquires more skills and education and more experience and experiences, rising wages or whether their children simply acquire greater education prior to entering the labor market, the same basic economics are at play. Education matters, skill matters, and rewards rise accordingly.

Mr. GRIJALVA. And how does your report, if you do at all, account for one job category—and I will put it as migrant worker, agricultural worker—among the foreign-born? Is there even a guesstimate as to what that percentage would be when we are looking at job classifications?

Mr. HOLTZ-EAKIN. We have in the report some details on immigrant foreign-born workers by industry and occupation. And so the agriculture industry, for example, has a sort of fairly small total labor force but a fairly high concentration of immigrants from Mexico and California or Central America.

Mr. GRIJALVA. And the last general question, and you touched upon it in your comments and in your report, and maybe just to expand a little bit on that point, how do foreign-born jobs lead to the creation of jobs for the native-born, if you understand my question?

Mr. HOLTZ-EAKIN. The mechanics of growth are always to increase the capacity to produce goods and services, and so an immigrant with skills increases that capacity, and then the tandem requirement is that there be a desire to purchase that capacity. And if a high school person comes in and makes a fair amount of money, they will buy things as well. And in the presence of those, you will see the economy continue to not only maintain its current level of employment but to actually grow, and that would bring jobs to additional members of the labor force, including the native-born.

Mr. GRIJALVA. Economically, not politically, economically, can our country afford to, say, eliminate the 6 to 10 million unauthorized workers in this country, and what would that do to the economy?

Mr. HOLTZ-EAKIN. The economics are that this is a resource for the economy, regardless of the legal status of the immigrant. They represent an economic resource in both their time they can spend at work, at the skills they bring to that work and the purchasing power they bring as consumers.

Taking away those resources would limit the economy to some extent. The cost of that and whether it is "worth it" would be in the eye of the beholder. But, mechanically, this is a resource, and diminishing your resources lowers your capacity to produce.

Mr. GRIJALVA. Thank you, sir.

Yield back, Mr. Chairman.

Chairman BOEHNER. The Chair recognizes the gentleman from Georgia, Mr. Norwood, for 5 minutes.

Mr. NORWOOD. Thank you very much, Mr. Chairman. It seems pretty clear to me that if one of the purposes of our hearing is to establish do we need some foreign workforce in our country to sustain our economy, that is pretty clear. I don't think anybody would much disagree with that. Nor would they disagree with that is probably going to hold for years to come.

The problem is we don't control that workforce. Therefore, there are so many illegally coming into the country that it indeed does affect native workers, at least where I am from.

Maybe you know exactly but how many people are allowed legally to come into our country each year to work that come through the normal system?

Mr. HOLTZ-EAKIN. It is a number that we can give you, but I don't know off the top of my head. There are employment preferences in the immigration law, and they have caps.

Mr. NORWOOD. Anybody behind you know the answer to that? Well, let's ask the next question while they are looking.

Can you give me an idea of how many people come into our country to work illegally each year?

Mr. HOLTZ-EAKIN. That is the number that is the most difficult to pin down, and so, no, we don't have a precise estimate of the annual flow. And, as I said, estimates of the total that have immigrated over the years range in the vicinity of 7 to 10 million, although many numbers have been talked about.

Mr. NORWOOD. Well, they range from 7 to 15 million. And I think you probably could be fairly reasonable to say it has been about 1 million a year. It has been somewhere in that area, and maybe it is 1.5 million 1 year and a half another year, but it is right in that range.

Where I am going here is that I want to know if we are allowing enough people to come into our country to work legally. We should know what that number is, how many are legally allowed to come.

Mr. HOLTZ-EAKIN. The numbers that we have in the slides, the total for 2004 was a bit under 1 million, 950,000. Of that, 600,000, roughly, were family based immigrants, and so that is unlimited for immediate family members and more limited for more distant family members. And then about 155,000 in the explicit employment-based preference, H1Bs and the many other categories. So that is 155,000 in economically targeted admissions preferences out of a little under 1 million total.

Mr. NORWOOD. But others of those came seeking work. I would assume most of them either come to seek work or either go to school, and most of those you are talking about—I shouldn't say most—some of those you are talking about, in fact, aren't working, they are dependents, so they are a part of our society, and do we need to raise that number so that we can get a proper number of legal workers in this country, so we can balance it with the needs of native workers after we secure the border? So do we need to raise the number or not? If we are going to need more workers in the next 25 years, why don't we raise that number?

Mr. HOLTZ-EAKIN. It is certainly among the options that the Congress has for thinking about the future immigration policy. The economy will adjust. I think the important economic lesson is the economy will adjust to whatever demography evolves. The question is whether it is preferable to have that demography be the largely native-born, low-fertility future or one which has a greater allowance for immigration.

Mr. NORWOOD. I know it adjusts for your on your big numbers, but it doesn't adjust for my friend in Decatur, Georgia who lost his job because the textile plant closed, because it went to Mexico and now can't get a job in the poultry industry because illegal aliens have the jobs. He views it a little differently than you do.

You seem to indicate you know the cost to us concerning Social Security. I think you said $400 billion?

Mr. HOLTZ-EAKIN. There is an account that the SSA keeps, which is the total payroll taxes which cannot be properly matched up, and the presumption is that a large fraction of that is due to the work of illegal immigrants and the taxes paid on them.

Mr. NORWOOD. So if we didn't have illegal immigrants, we wouldn't have that income? Is that what you were saying?

Mr. HOLTZ-EAKIN. No. I think there would be an adjustment so that perhaps we would have the native-born either in those jobs or

making more in the jobs that they have or some other economic future, but it wouldn't be a dollar for dollar subtraction.

Mr. NORWOOD. It is interesting that you say weren't they there we would have native-born taking those jobs, paying Social Security, so we would have no slack in Social Security.

Just one last question: Do you have any idea what it costs this country for illegal alien workers in terms of our cost of the health care system and the education system and the welfare system? Is that anybody factoring that cost in to all of this?

Mr. HOLTZ-EAKIN. The impact of immigration on both state and local and Federal budgets is a very important question. Among the studies that we are planning to do is a study in that area. We have a series of immigration reports which were requested by the Senate Finance Committee, and that is in our future.

Mr. NORWOOD. So we realize that that is an extreme cost or a large cost.

Mr. HOLTZ-EAKIN. We will be happy to share with you the results when it is done. I won't prejudge the answer.

Mr. NORWOOD. Thank you, Mr. Chairman.

Chairman BOEHNER. The Chair recognizes the gentlelady from California, Ms. Woolsey.

Ms. WOOLSEY. Thank you, Mr. Chairman.

And let me first express my thanks to you, Mr. Holtz-Eakin. The work you have done as Director of CBO puts a high standard for anybody in a government Director's position like yours, and I wish you luck in the future. And I also wish your successor luck in hope that that individual be as non-partisan as you have been able to be in your job. I respect that very much. Thank you.

So now, I am from California. Do you think that the states like California with a high population of immigrants need to do a little bit more in studies or are these studies conclusive enough about questions like, are immigrants taking jobs from native-born Americans? How are we doing in educating new immigrants, particularly non-English speakers?

And are immigrants staying in school when they come to our country and reaching the goal of graduation or what is happening? But, mostly, are they are really taking our jobs, and are we treating them fairly for what we get out of them?

Mr. HOLTZ-EAKIN. All very good and all very difficult questions, many of which, I would suggest, can be answered very well by members of the second panel, so I encourage you to ask the question again.

To the extent that the studies we have done shed light on this, I think we have seen the facts on educational attainment of the second generation and beyond. So is it the case that there is education going on to which the immigrant population has access? Yes. I mean, the numbers suggest that.

Are the foreign-born workers taking the jobs of native Americans, a very contentious and difficult question, and it is most difficult for an economist because it is hard to think of a job with a label on it that says, "Dug hole, taken." I indeed am about to lose my current label and go do something else, and that is the key characteristic of the American labor market on both the employer and the employee side, that options shift continuously and people

respond to the incentives of those new options, and that is on both the employer and employee side.

So what we tend to see is a job market that rewards skill and in particular mastery of the English language. If you don't have those skills and you don't have mastery, you are at a disadvantage, and so the foreign-born with those characteristics end up with the jobs where they face the least disadvantage. They are not going to get the best jobs. It is hard to point in to the native-born population and say, "That was supposed to be X or Y's job." Not a very economic notion.

Ms. WOOLSEY. Well, maybe I could ask—I know this is opinion and maybe you won't say, "Yes, we studied this″—but in my district we grow grapes and have wine, and we have cows and produce the dairy products for the Bay Area. Well, it isn't the native-born that are milking the cows or picking the grapes. If we raise the salaries of those jobs, would native-born individuals take those jobs? I don't believe they will, but do you think they would?

Mr. HOLTZ-EAKIN. It is hard to find an economist who doesn't immediately appeal to the notion that if you pay people more, they will be more willing to do it. So I would suggest that it is certainly a degree of magnitude. If you turned those into $100,000 a year jobs, I would suggest that you could probably get a pretty good applicant list. Where then, how much would the pay scales, the benefits, the working conditions have to change to change the mix of employment? That is the harder question.

But the key is the American labor market does make those changes, it does adjust, and pay rates, working conditions, compensation are not frozen in stone.

Ms. WOOLSEY. Absolutely not. So would then the American economy—would the consumer be willing to pay a lot more for a head of lettuce or a bottle of wine or a glass of milk so that their kids could milk the cows and pick the grapes?

Mr. HOLTZ-EAKIN. You will probably get a very different answer if you have got the lettuce, the milk and the wine, depending on which you view as a necessity. People tend to pay for necessities, and if costs go up, they take off their expenditure on the luxuries in life.

Ms. WOOLSEY. Thank you very much.

Mr. HOLTZ-EAKIN. Sure.

Ms. WOOLSEY. And thank you for your work.

Chairman BOEHNER. The Chair recognizes the gentleman from Nebraska, Mr. Osborne.

Mr. OSBORNE. Thank you, Mr. Chairman.

Thank you for being here today.

I come from an area where there are a lot of cows, a lot of meat packing, and I occasionally go to a meat-packing plant and sit down with the people who run the place and I will say, "You have got a lot of guys here who have come in here recently and are they all here legally?" "Oh, yes, they are." And I have a strong suspicion that is not always true.

And I just wondered if you had a good feel as to if an employer really wants to know, I mean, if it is really a big deal to have accurate documentation, if there is a way to find out and to—because it seems to me like some of the onus needs to be put on the employ-

ers, and as long as they are willing to accept fake documents, which sometimes they know are fake documents, we will continue to have much of what we are seeing. So I wondered what your impression was of this problem.

Mr. HOLTZ-EAKIN. Well, it is certainly the case that 20 years ago when Congress visited this issue it did put the onus on employers to verify the status of their employees. And I am not an expert in the degree to which it is possible to fool an employer, and I am not in a position to speculate on the degree to which they really push hard to verify the documents that they might receive.

It is the case that from a pure economics point of view a participant in the labor force is a participant in the labor force. It is true, however, that this is a nation of laws and that if one is in violation if the law and if an employer is willing to hire in violation of the immigration laws knowingly, they may have a modest competitive advantage and it is no longer equal in that case. And so compliance with the law is a central part of how we mean to do business in America, and noncompliance changes the economics as well. It is not completely immaterial.

Mr. OSBORNE. I guess my question is getting more at the point of do you feel the tools are there so if an employer really wants to push the issue and find out for sure whether they can or not? Because right now it is very convenient if somebody comes in with what looks like a pretty good set of documents and he can just kind of give it a wink and a nod and say, "OK, you are acceptable." But what I am getting at is if the penalties were high enough and it really was something you have to figure out if the information is available.

Mr. HOLTZ-EAKIN. The success will be determined by two pieces: The incentives and the capacity. So if there is money to be made, there is an incentive. If there is a great penalty, a really substantial penalty, then that is a cost that most employers would hesitate to incur, and that would deter it. And in between is how well can they screen the documents? I just don't know, and we would be happy to work with you on that.

Mr. OSBORNE. I have one other issue. I, like lots of people, have got a bill, probably a whole stack of them somewhere, nobody's going to read most of them. But there are really two problems. One is border security and the other is the issue of once people are here, once they are in the country and they are not documented, what do you do with them.

And so one proposal I would like to float by you and see if you have an opinion on it is if someone is here illegally, they have a good work history, though, and they have a job, an employer will vouch for them, they have no criminal record, good family background, and if you filled out the paperwork here saying the employer likes him, wants him back, they went home to their country of origin, signed in with the consulate, came back with a work permit, I think the question many people have, well, how many people who are undocumented would be willing to take the risk, would be willing to come forward?

And, again, I am asking you to speculate, but do you see anything like this, because, you know, you hear all the concerns about amnesty and if they are already here undocumented and we some-

how give them the legal status while they are here, then it simply invites another wave of undocumented workers. Does something like this seem workable to you or this is beyond your expertise?

Mr. HOLTZ-EAKIN. Most of it is beyond my area of expertise. I think what you are asking is——

Mr. OSBORNE. Beyond mine too. That is why I am asking. Go ahead.

Mr. HOLTZ-EAKIN. I think that a way to characterize the outcome that most people seek is how to bring everyone into compliance with the law and obtain that policy objective. Objective No. 2 is to take advantage of the skills and resources where employers value them and individuals have displayed them. And, No. 3, set up proper incentives so that that is reinforcing in the future and doesn't have to be monitored and redressed again.

That is very difficult to hit all three simultaneously, and the costs of doing it are going to differ. So I really can't give you a firm answer on whether that strategy is going to be the best.

Mr. OSBORNE. OK.

Thank you, Mr. Chairman.

Chairman BOEHNER. The Chair recognizes the gentleman from Ohio, Mr. Kucinich, for 5 minutes.

Mr. KUCINICH. Mr. Chairman, I want to thank you very much for holding this hearing and to begin the hearing as you did in saying there is no particular agenda. I think that is important. I also think it is important for those of us who have been speaking to these issues for years to use this as an opportunity to point out that immigrant workers should have their basic human rights stated and protected as well as basic workers' rights stated and protected.

Workers who come to this country should not have their immigrant status abused by being forced to accept sub-minimum wages of having working conditions that would be deplorable but which they can't object to because of the enormous power that employers have.

Having said that, I think that it is important to realize that Hurricane Katrina left hundreds of thousands of people out of work, according to the Congressional Budget Office's September estimate. Many, many homes and workplaces were totally destroyed. The reconstruction effort will, in all likelihood, be the primary stimulus in employment in the foreseeable future. But will the victims of the hurricane get the jobs created by the reconstruction or will workers from outside the region, in some cases from outside of the U.S., get these jobs? Congress, to date, has done nothing to require or encourage the Federal reconstruction aid be tied to employing out of work hurricane victims.

Now, Mr. Holtz-Eakin, I am holding in my hand a leaflet from the Accent Personnel Services, Inc. It is a labor force recruiter of Mexican labor that specifically markets Mexican workers for hurricane relief as an integral part of an employers' long-term workforce.

The Christian Science Monitor reported that the Department of Homeland Security has informed employers that they no longer have to verify the immigration status of employees involved in the reconstruction. If recruiters, like Accent Personnel Services, Inc.,

are successful in placing immigrant labor in the large percentage of the contractor and grantee jobs created by the reconstruction, there will be significant effects on the local economy in the Gulf region.

So I would like to ask first, has CBO estimated the number of immigrant workers who are currently employed in the reconstruction of New Orleans?

Mr. HOLTZ-EAKIN. No.

Mr. KUCINICH. Has CBO evaluated the prospects of hurricane victims to receive the jobs created by the reconstruction in light of the pressures created by labor recruiters to bring in workers from outside the U.S.?

Mr. HOLTZ-EAKIN. No.

Mr. KUCINICH. And what are the barriers facing hurricane victims?

Mr. HOLTZ-EAKIN. The barriers facing hurricane victims, from a broad perspective, are that, first, many have lost substantial amounts of wealth and their primary employers, and in some cases they are also no longer physically in the Gulf region. So they face barriers that are access to funds that would allow them to restore their homes, and there are Federal programs to assist them in that. They have, in some cases, the cost of getting back to the region, and then there are the issues associated with finding a new job, searching for a new employer, matching up your skills with the needs of those employers. And during reconstruction, the nature of economic activity will shift from that which was present before and the skills won't match automatically.

Mr. KUCINICH. Has CBO evaluated the additional cost to the U.S. Treasury that would be expended on unemployed victims of the hurricane in terms of unemployment insurance, disaster unemployment insurance, Medicaid, food stamps and other forms of Federal assistance if they cannot find work in reconstruction?

Mr. HOLTZ-EAKIN. We have some estimates, broad brush estimates that are difficult to pin down on the impact of ongoing programs, whether they be the ones you mentioned or tax collections as a result of the hurricanes and the economic impacts. I would be happy to get those to you, but they are all entirely speculative at this point, because we have no firm knowledge of the precise employment loss in the Gulf region as a result of the Hurricanes Katrina and Rita.

Chairman BOEHNER. The gentleman's time has expired.

Mr. KUCINICH. Could I ask one more question?

Chairman BOEHNER. Go ahead.

Mr. KUCINICH. Has CBO estimated the savings that would result from the employment of hurricane victims?

Mr. HOLTZ-EAKIN. No, we have not.

Mr. KUCINICH. OK.

Mr. Chairman, I asked those questions. I would appreciate it if the Chair would ask on behalf of the committee for us to get this information and to ask if CBO can move forward and create some of this data so that we can make a more effective evaluation of the impact of an immigrant workforce on a region that has been deprived of a lot of jobs and which people are desperate for employment.

Chairman BOEHNER. The gentleman, like any other member, can request this information of CBO, and I would certainly—if you would like to ask them that question in writing, you are certainly welcome to do that.

Mr. KUCINICH. Well, we will submit it in writing and use this forum to ask if you would be willing to cooperate in providing a response?

Mr. HOLTZ-EAKIN. Certainly to the extent that we can, we will. We have already provided two letters to the Congress on our best guesses about the impacts of the hurricanes on programs like that. I would caution the congressman that there is not much more we are going to know, but we will certainly do our best.

Mr. KUCINICH. Chairman, I want to thank you, and I would like to submit this letter for the record.

[The information follows:]

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Chairman BOEHNER. The Chair recognizes the gentleman from New York, Mr. Bishop, for 5 minutes.

Mr. BISHOP. Thank you, Mr. Chairman, and let me thank you very much for hosting this hearing. Of all the issues that we deal with as Members of Congress, I have not encountered any that engenders the level of emotion and passion that this issue does, particularly the more specific issue of illegal immigration.

Several questions I had have already been asked and answered, and, thank you, by the way, very much for your testimony. I found it to be very helpful.

One of the solutions that some propose to the problem of whether it is 7 million or 10 million or 12 million or 15 million illegal immigrants in the country is mass deportation. You have already indicated to us, I believe, in response to a question from Mr. McKeon that such a solution would have an enormous impact on our economy if you were to extract 10 percent of the workforce. You said that would have an enormous impact on our economy.

Have you done any studies that would assess the logistics of such a decision? I mean, it strikes me as a relatively daunting exercise, both financially and logistically, to find and round up and then transport 10 million. Have you done any studies on that?

Mr. HOLTZ-EAKIN. No, we have not.

Mr. BISHOP. OK. Second issue: The whole issue of the underground economy and people earning money on which they don't pay taxes. You have indicated to us that there is a fund of some $400 billion that the Social Security Administration cannot correctly link with an eligible recipient, and you have indicated that some significant portion of that presumably is related to undocumented workers who have false Social Security identification.

Have you done any estimates of the revenue that accrues to the Federal Government paid by this undocumented workforce or the revenue that accrues to state and local governments as a result of sales tax that is paid by this undocumented workforce? Have you any way of determining that impact on, if you will, public revenue?

Mr. HOLTZ-EAKIN. We have not done any studies of that type. There are two different issues. One is the earnings and payments by illegal immigrants into various state, local and Federal coffers. And then the second issue is the degree to which there is an underground economy and evasion of legally owed taxes, which of course doesn't divide on native-born versus foreign-born lines. So we don't have any particular information on those. We have relied on the reports of other agencies.

Mr. BISHOP. One more question. Mr. Norwood was asking some questions having to do with the impact on hospital costs and school costs. The whole issue of unreimbursed care for our health care system, as you know, is a huge issue. Have you done any assessment of what proportion of the unreimbursed care problem is related to this undocumented workforce and how much is related to the fact that we have an enormous number of native-born people who don't have health insurance themselves?

Mr. HOLTZ-EAKIN. No. We don't have that decomposition. To the extent that there is interest in the impacts of immigration on various programs even at the state and local level and then as the immigrants stay, work, get higher earnings, there is a National Academy of Sciences study a little over a decade ago that looks at the payments over the life of an immigrant and the drawing of benefits early, taxes paid later, and that is probably the best source at the moment.

Mr. BISHOP. Thank you very much.

I yield back, Mr. Chairman.

Chairman BOEHNER. The Chair recognizes the gentleman from New Jersey, Mr. Holt, for 5 minutes.

Mr. HOLT. Thank you, Mr. Chairman.

And thank you, Mr. Holtz-Eakin. I appreciate the way you are letting the facts speak rather than ideology speak, and I suppose the measure of how successful you have been in steering a fact-based course is how many people you have made mad on both sides of the aisle. I thank you for your good work and wish you the best.

In your report, you talk about the importance of native-born workers in various occupation groups and they are particularly important in computer and mathematical sciences, architecture and engineering, life, physical-social sciences. The National Academy of Sciences and a number of education groups have talked about the downturn in recent years of foreign-born students, particularly in the sciences and technical fields. There may be a slight turnaround in recent months, in the current year.

One of the questions that I wanted to understand is, how those foreign-born students enter these occupational categories. Are they temporary, are they long term? Will this downturn that we have seen in recent years leave us with employment shortages in those areas?

So I mean, I guess I would like to ask you—I don't think you have been able to address this but I would like to ask the importance of this downturn in foreign-born students for the research and educational effort itself, but maybe you are not able to answer that and maybe we will ask the other panel. But maybe you can answer how this foreign-born educational cohort gets into the workforce, whether it stays and whether this is likely to lead to a long-term shortage?

Mr. HOLTZ-EAKIN. There are two components to the answer. The first, just for concreteness, imagine an individual coming to the United States to go to graduate school, get an advanced degree. The evidence is that those individuals tend to stay in the United States. If you look out 2 years later, they tend to still be in the United States.

We don't have precise estimates of exactly how long, how many stay in the United States as opposed to go back to their country of origin, but, roughly speaking, there is a substantial persistence. So they come, they get jobs here, they bring those skills into the U.S. labor market.

So to the extent that fewer show up and then fewer stay on, mechanically you see the impact pretty directly.

The harder part of the answer——

Mr. HOLT. Do you have numbers or can you point us to someone who does have numbers?

Mr. HOLTZ-EAKIN. We can get some things for you on that.

The harder part to answer is, how then, if that were to go on for a substantial amount of time, how everyone else reacts. I mean there are now opportunities to make good money if you instead of stopping at a B.A. or B.S. go on to get a master's or a Ph.D. And over the long haul those incentives do matter, and maybe those incentives will be taken up by the native-born population and they will end up with the degrees. And they will fill in what would be

perceived to be a gap. That is a question of time and magnitude and it is hard to pin down.

Mr. HOLT. Yes. One other question I wanted to make sure I understand. In one of your graphs, you talk about the average years of education completed for native-born members of the workforce and for foreign-born members of the workforce. And I was interested to see that for foreign-born members of the workforce, it is about a year less of education.

So in your remarks you say there is enormous difference in the amount of education, but here it sounds like it is kind of a 10 percent difference in the number of years of education. Is that even meaningful to look at the average, because it is probably bimodal, where you have one segment of the non-native-born population that is undereducated, another segment of the non-native-born population that is highly educated? Do you think it is meaningful to talk about average years of education completed?

Mr. HOLTZ-EAKIN. I regretfully announce that you have described our study better than I did. That is exactly what is going on. It is bimodal. The foreign-born from Mexico and Central America have substantially less education, both than the native-born population and less than other immigrants who are above the native-born population, on average. So it is always better to look at the details, and in this case it really does break apart into those two groups pretty cleanly.

Mr. MILLER. Russ, would you yield for a second?

Mr. HOLT. Yes.

Mr. MILLER. Thank you for yielding.

Mr. HOLT. I would yield to the ranking member.

Mr. MILLER. You want to hear the answer to this question. You know you want to hear it.

Mr. MCKEON [presiding]. Go ahead and yield your unyieldable time.

Mr. HOLT. I yield my nonexistent time to the gentleman from California, Mr. Miller.

Mr. MILLER. Thank you. I have spent most of my life operating on other people's nonexistent time.

[Laughter.]

If there is a clash to take place, looking at the information that Mr. Holt just presented to you and in your charts, it would appear that it is that grouping in the population that is somewhere between 9 and 13 years of education, that if you are going to have a serious competition for relatively few jobs at that area, that is where it is more likely to take place. Is that a fair interpretation of that data or is that completely wrong?

Mr. HOLTZ-EAKIN. Rather than answer that question, let me give you a different answer. One of the charts we showed was the average weekly earnings, and we showed it by education level, and I think what, if one looks at in the report, especially in the report where there is more detail, you would see that the high school degree matters. And so tipping over the line to getting a high school degree does affect labor market success to a great extent, and that is in that 9 to 13 years.

Mr. MILLER. So if you think this is a problem, you ought to stay in school?

Mr. HOLTZ-EAKIN. Yes.

Mr. MILLER. OK. Thank you. Thank you for yielding your nonexistent time and for your answer to the right question.

[Laughter.]

Mr. MCKEON. Gentleman yields back his time.

The Chair recognizes the gentlelady from California, Ms. Davis, for 5 minutes.

Mrs. DAVIS OF CALIFORNIA. Thank you. Thank you, Mr. Chairman, and thank you very much for being here, for all that you have done to really help open our eyes to many of the issues in the budget. I appreciate that.

If I could continue with the chairman's question and also with my colleague, it is the American-born workers—if we were to listen to many of the concerns that are out there—and they certainly are there in California, they are certainly there in my community of San Diego—it does appear that people are most concerned often about the American worker who somehow is displaced by an immigrant worker, be that, in most cases, undocumented.

What do we know about what happens to those native-born workers who leave their job or suffer wage decreases as a result of being replaced? Have we undertaken enough work to know whether are they retrained, do they end up going back into the workforce in a reasonable amount of time and in fact increase their wages? What can you tell me, and perhaps this goes into the next panel.

Mr. HOLTZ-EAKIN. The next panel, I am sure, can be helpful in this regard. We can give you greater detail, but there is a large literature that looks at the impact of displacement—mass layoffs, whatever it may be—on the future labor market success of individuals. And that displacement is not focused on competition from immigrants, legal or otherwise. But in looking at that, certainly, the——

Mrs. DAVIS OF CALIFORNIA. Can we choose out those factors, though? I mean, why haven't they looked at that? It seems like that would be an important factor to understand.

Mr. HOLTZ-EAKIN. The nature of the displacement is not really the key. The key is how does the individual respond and how does the market reward that individual. Higher educated individuals also both reattach to jobs quicker and suffer less but not entirely are immune from earnings losses. It gets harder as less skills are present, takes longer.

And there are training programs, and I don't think that there is anyone who can point to a silver bullet training program that works in the sense of getting a worker back to work really quickly and restoring their wages. Those are costs of adjustments in the labor force, and they are borne by those individuals.

Mrs. DAVIS OF CALIFORNIA. Do you see in the work that you did—and I know that there were a number of studies that you cited as well—is there a major difference in terms of regional areas, not only California, where you have higher number, obviously, of immigrant workers there with higher densities? What about this is very consistent in your work and that which is not when you look at those particular regional differences?

Mr. HOLTZ-EAKIN. I think that the part that is not difficult to document and is not controversial from a research point of view is the concentration of newly arrived immigrants in those 6 states in our case and then the diffusion out to a number that looks more like 10 or so and documenting the skills of those workers. That is all pretty straightforward.

The harder parts are impacts on, say, earnings in those different labor markets. And there even situations where there were very large influxes of immigrants, the Mariel boatlift in South Florida, for example, there is far from a consensus among very good economists about exactly what went on in that very particular instance. And I think that is evidence of the difficulty of coming up with a quick answer about how immigrants "affect earnings." It is very hard.

Mrs. DAVIS OF CALIFORNIA. So is it fair to say, I mean, the wages are going to fluctuate where you have those greater densities to a greater extent than they would in other areas? And you had mentioned earlier that you don't necessarily track documented versus undocumented workers and those wages. Can we not filter out some of those issues as well?

Mr. HOLTZ-EAKIN. I think the bottom line that I gave from the report is that our survey reveals no, sort of, strong consensus estimate, that there is a lot of uncertainty about the impact and that that uncertainty really is dictated by the circumstances, concentrated arrival versus not, and the time period for which you look. And so the nice pat answer, while it might be appealing, is not something I am prepared to offer up.

Mrs. DAVIS OF CALIFORNIA. What do you think people are missing most in this discussion?

Mr. HOLTZ-EAKIN. What do people miss most in this discussion?

Mrs. DAVIS OF CALIFORNIA. Yes.

Mr. HOLTZ-EAKIN. From an economics perspective, the difficult part of convey is the vast and difficult to itemize capacity of employers and workers to adjust to new circumstances. We give it names, the flexibility of the American economy, we talk about incentives and all those things, but the reality is that it is pretty tough to knock the U.S. economy off course. And immigration is one source of shifts in circumstances, much like others, whether they be oil price shock, whether they be terrorism events. The economy is pretty flexible and tough, and that is hard to convey.

Mrs. DAVIS OF CALIFORNIA. Yes. Thank you very much.

Thank you, Mr. Chairman.

Mr. MCKEON. The Chair recognizes the gentleman from Massachusetts, Mr. Tierney, for 5 minutes.

Mr. TIERNEY. Thank you, Mr. Chairman.

Thank you for your service as well as for your time here today.

Can we take from your work that an individual who is here as an immigrant illegally and who gets more education or has more education is going to have a more positive impact on the economy than an illegal immigrant worker who has less of an education?

Mr. HOLTZ-EAKIN. I think you could safely draw the conclusion that having more skills gives a greater capacity for the economy.

Mr. TIERNEY. That being the case, you also mention second-generation families, foreign-born families generally get more of that

education and, in essence, contribute more positively to the economy of the country as well; is that right?

Mr. HOLTZ-EAKIN. Yes. Their earnings tend to be higher, reflecting their greater productivity.

Mr. TIERNEY. So assuming we have a situation where the second generation is here, the family having come illegally, and there is no indication that the child of the second generation is going to go home at any point in time, does it not make sense for us to encourage the further education of that individual so that as they stay here and as they get employed, they will in fact have a more positive impact?

Mr. HOLTZ-EAKIN. The rewards that I mentioned have nothing to do with legal versus illegal, so the returns to greater education are the same in both cases.

Mr. TIERNEY. I guess what I am getting at is we have this debate in my state, at least, and I suspect other places as well, as to whether or not children that might have been brought here when they were 3, 4, 5 or 6 illegally and now are at that point where they are graduating from high school, might have done very well and are eligible for college, whether or not it makes sense to get them through college, get them more of an education, knowing that they are going to stay, hopefully that they will contribute more. And I am just trying to track that down. Do you have any insight on that?

Mr. HOLTZ-EAKIN. And I am very carefully trying to not expanse on that. What I can say is——

Mr. TIERNEY. Well, I guess, I didn't mean to make it more political. I am just trying to break it down so it wouldn't get political as to just what do the facts show on something like that?

Mr. HOLTZ-EAKIN. The typical breakdown on this in both dimensions are, first, consider a person getting more education, K to 12 education versus college and above. There is a lot of evidence that for college and above the additional earnings that you will accrue during your working career more than compensates for the cost of college, that it is worth it, in some economic sense, for an individual to go to college, and if they recognize that, no particular inducement would be necessary.

Earlier education, different story there. The kinds of things from which the society may benefit may not just be things and earnings. They are an educated and literate voting populous and citizenship and all the broader dimensions of education. So that is just the education story.

In terms of if a son or daughter of an illegal immigrant or not, it is really one of these classic policy conflicts. The economics of it I have laid out. On the other hand, there is a violation of the law, and adherence to the law is a policy objective, and so you have to come to a conclusion about how you feel about those two things.

Mr. TIERNEY. Right. I was setting aside the legality issue by just assuming that the person is here illegally and assuming that in this particular instance I was laying out that the person isn't going to go home. They are either going to end up somewhere else in the economy here or whatever and not returning back, and that if they go on to school or whatever and they get a higher paying job, then

they can pay more taxes and economically maybe in the end it will work out on that. I thank you for helping me work through that.

I yield back, Mr. Chairman.

Mr. MCKEON. The Chair recognizes the gentleman from Maryland, Mr. Van Hollen for 5 minutes.

Mr. VAN HOLLEN. Thank you, Mr. Chairman.

And, Mr. Holtz-Eakin, let me also thank you for your service at the Congressional Budget Office. And best wishes to you. Is it the Council of Foreign Relations I see?

Mr. HOLTZ-EAKIN. Yes.

Mr. VAN HOLLEN. Good luck. Our loss is their gain, and so thank you for your service.

We have talked a lot about and debated the impact on native workers or foreign workers. Much of the discussion in public has been focused on low-scale workers and illegal immigration, what impact they will have on earnings or unemployment rates.

Let me just talk a little bit about the impact of higher-skilled workers because, as you know, there is a lot of discussion around here every time we talk about the H1B visa policy and raising the cap. And while employers here are supposed to make a certification that they haven't found another person here with similar skills willing to take the job, that continues to be an area of debate.

So my question to you is, is there any evidence to suggest that the H1B visa program or other programs where we bring in higher-skilled workers are displacing native-born American workers or having an impact on their wages?

Mr. HOLTZ-EAKIN. As I said earlier, we haven't done a particular H1B study, but you can get some guidance out of the literature, such as it is. It has been difficult to pin down an effect of immigration on the earnings of the native-born, in general. Those numbers are large, as I have emphasized. H1B is a much smaller component of the labor market, and one would suspect that with a smaller impact you would get a smaller response.

Mr. VAN HOLLEN. Any studies that show what impact in terms of economic growth that program or those programs have? As you say, it is relatively small given the overall labor force.

Mr. HOLTZ-EAKIN. We can check into that. I don't have that at my fingertips.

Mr. VAN HOLLEN. How about the issue, we talked about the fact that there is a possibility that American-born workers would be displaced by foreign-born lower-skill workers. What are the incentives that would exist for a company to move its operations overseas, for example, to Mexico or Latin America, if a company here were unable to find a labor force? Do you think that the foreign-born workforce here in the United States, legal or illegal, reduces the incentives for some companies to actually move their entire operations overseas?

Mr. HOLTZ-EAKIN. They are certainly related. International trade in goods is essentially international trade in the services and the capital embedded in those goods. And in the absence of the ability to trade goods internationally, there will be greater incentives to move capital and labor internationally.

The flipside is also true. Absent the ability to move capital and labor affects the desire to import goods. And, certainly, the location

of operations, a capital investment decision, depends on the markets to which you will have access.

So it is impossible to tease one of those out separately from the rest and say, "That is it." They interact——

Mr. VAN HOLLEN. Right. Mr. Norwood asked you some questions about the impact of displacement of native workers to the foreign-born workers, and some of the others who are going to testify after you their testimony is that there is a significant impact, especially among lower-skilled workers with respect to displacement.

As I understand your testimony, I want to be clear in reading the report, you have sort of chronicled the different studies out there, but the conclusion that you have drawn, you say, range from negligible impact to an earnings reduction of almost 10 percent, in terns of the studies that are out there. Have you drawn any conclusions yourself with respect to what the actual numbers are?

Mr. HOLTZ-EAKIN. I think, first of all, we didn't do original research. The purpose of the report was to summarize this state of knowledge and that means the research of the others. And for that reason, you will find researchers have strongly held opinions on their particular outcome. And I have been that way at times in my life, so I understand that.

But I think the bottom line we drew was this is an impact that is difficult to quantify; that is, we are often asked in CBO to give a number. If we had 10 percent more immigrants, what would be the impact on native workers' earnings? And that is difficult to do and probably unwise to do, because the nature of the question you are asking matters. Is it the impact on workers if we don't get additional capital investment that allows the immigrants to be more productive? Is it the impact on workers in the absence of 10 years to adjust or is it this week?

I think that is one of the reasons you get these strikingly different answers. And for that reason, I think it is inappropriate to put a single number on it.

Mr. VAN HOLLEN. Thank you.

Thank you, Mr. Chairman.

Mr. MCKEON. The Chair recognizes the gentlelady from Minnesota, Ms. McCollum, for 5 minutes.

Ms. MCCOLLUM OF MINNESOTA. Thank you, Mr. Chair.

Sir, I have heard my colleagues up here, and in your reading through your documentation, the term, "unauthorized, undocumented, illegal." Are they all in exchange for one another? Is there a legal term that we should be using?

Mr. HOLTZ-EAKIN. I am not a lawyer and I won't pretend to be. I have used them interchangeably. If that is a mistake, I will go back, and the general counsel of CBO will scold me, I promise you.

Ms. MCCOLLUM OF MINNESOTA. And we have too.

Mr. HOLTZ-EAKIN. I think the term, "unauthorized," would be a sensible term to focus on. We have authorized immigration on a permanent basis. Those are the categories I mentioned earlier. They are authorized temporary visas for a variety of activities, and sometimes people change status, so there are a whole series of authorizations which constitute the legal pathway to presence in the United States.

Ms. McCollum of Minnesota. And you could be unauthorized while you are waiting for your paperwork to get finished and you were here in authorized status earlier on.

Mr. Holtz-Eakin. You could have begun authorized on a temporary visa and overstayed the visa's expiration and become unauthorized.

Ms. McCollum of Minnesota. And sometimes we are not processing people's paperwork very fast either, but that is a different study.

Mr. Holtz-Eakin. That is not my——

Ms. McCollum of Minnesota. And the reason why I bring this up is because part of this discussion not only is with what is happening with displacement of our workforce, it is the security of our borders. And so if someone is here who intends no harm to the United States, though a worker might be harmed by being displaced by someone who is here unauthorized versus someone who comes in here illegally with the intent to do harm to this country, I think these terms sometimes conjure up certain images when we are talking about border security, and that is why I mentioned it.

Your study appears to be silent on an issue I have had great difficulty ever getting any research on, and maybe you can point me in a direction. I served in the Minnesota state house before coming here, and we were having discussions in Minnesota. As you know, we have a lot of legal immigrants who hold visas who do all different types of jobs as well as having unauthorized group of people who are working illegally in our state.

And I wondered then and I wonder now what is the state and Federal Government's compilation of fines that have been given to employers who have hired people illegally? What happens when employers repeat, knowingly look the other way, even when someone presents documentation that looks suspect. And the Department of Treasury certainly encourages retailers to really get to the bottom of that phony $20 bill that they might be receiving.

But I am not saying that we have done very much in the way of really presenting what happens to employers when they do this? What happens to employers who knowingly go down and solicit people to come up to Minnesota and as part of the catch of having people come, they say, "By the way, your health care will be provided." Well, yes, it will—MinnesotaCare. "Housing will be provided." Yes, it will, but it was subsidized housing that employers came and actually lobbied for at times from the state, that we were doing with the best of intentions for U.S. citizens and people who are here legally as guests working in this country. Never intended to be used for illegal.

So I am wondering if you can either point us in the direction so we can find out what is going on, because if this is something where we are punishing a person who has been recruited to come here and we are not punishing the recruiter, then there is very little justice in our system, and I believe that that needs to be addressed.

The other point that Representative Kucinich brought up in one of his questions that I would like to let me know if you have taken a position on, many of the workforce in Katrina that was removed from the area, some of these individuals being put on airplanes,

being told they were going one place and landed up in another or being told that, "You have no choice. You have to go." If they want to come back and work and be part of the reconstruction of their community, do you know, are we working on a policy to bring that workforce back down there, to find them housing and to pay for their return transportation? After all, we did transport them, some of them very unwillingly, to locations now they find themselves glad to be at or they find themselves stuck in.

Mr. HOLTZ-EAKIN. In both cases, we don't have direct studies of either. We can certainly point you toward some information on enforcement efforts in the immigration area, both with respect to immigrants themselves but also employers to the extent it is available.

And on the latter question, I quite frankly don't know, but we can check and get back to you.

Ms. MCCOLLUM OF MINNESOTA. Mr. Chair, I think it is important, as this committee proceeds forward, because we are about employee and employer relations, and we need to know what is going on with enforcement, both at a local and a national level. If we have repeat employers that are constantly being cited for this and just getting slapped on the wrist, then they are encouraged to repeat it again.

And we also know of instances where employers have held people who have been brought in illegally into this country and have been subject to what I would call near slavery. And what has happened to those employers? So I think we have an obligation to look at both sides of this issue, and I hope as we move forward we do that.

Mr. MCKEON. The gentlelady yields back her time.

Dr. Holtz-Eakin, thank you for spending the time here with us today, and we will now excuse you and wish you all the best in your future endeavors. Thank you very much.

Mr. HOLTZ-EAKIN. Thank you.

Mr. MCKEON. I would like to ask our next panel if they would take their place at the table, and at the outset apologize to you that many of our members have had to leave to go to other assignments on the Hill. We will let you know and assure you that your testimony that they will read and they will pay attention to as we move forward in this issue.

It is my understanding our first witness on this panel is a constituent of the gentleman from Maryland, and pursuant to the committee rules, I recognize Mr. Van Hollen for the purpose of introducing our first witness.

Mr. VAN HOLLEN. Well, thank you very much, Mr. Chairman.

Let me welcome all the witnesses and also thank you for your patience.

It is my privilege to introduce a gentleman who is a constituent of mine, both he and his family.

Professor Harry Holzer, welcome to you. Dr. Holzer has served as a professor of public policy at the Georgetown Public Policy Institute since the fall of 2000 with concurrent affiliations at the University of Michigan's National Poverty Center, Harvard University's Program on Inequality and Social Policy and the University of Wisconsin at Madison's Institute for Research on Poverty.

Prior to joining the faculty at Georgetown, Professor Holzer held a variety of posts in and out of government, including chief economist at the Department of Labor, senior fellow at the Urban Institute and professor of economics at Michigan State University. He has taught and published extensively in the areas of social policy, labor markets and poverty. He is a graduate of Harvard University where he also earned his Ph.D. And, as I say, I am proud to have him as a constituent.

Welcome.

Thank you, Mr. Chairman.

Mr. MCKEON. Thank you.

And our next panelist will be Dr. Steven Camarota, who is director of Research at the Center for Immigration Studies here in Washington. He is the lead researcher on a Census Bureau project examining the quality of foreign-born data in the American community survey. Dr. Camarota earned his master's degree from the University of Pennsylvania and his doctorate degree from the University of Virginia.

And then we will hear from Mr. Daniel Siciliano, the executive director of the Program in Law, Economics and Business at Stanford Law School.

You get the award for coming the furthest today. Thank you.

He is a research fellow with the Immigration Policy Center and studies the long-term economic impact of immigration policy and reform. Mr. Siciliano received his bachelor degree from the University of Arizona and his law degree from Stanford University.

Thank you all for being here. Let's hear first from Dr. Holzer.

STATEMENT OF DR. HARRY J. HOLZER, PROFESSOR OF PUBLIC POLICY, ASSOCIATE DEAN, GEORGETOWN UNIVERSITY

Mr. HOLZER. Thank you. I wanted to summarize a little bit of what we heard. We have heard quite a bit in the first panel already, so I will just try to supplement what we heard.

There was some discussion this morning of the labor market effect for native-born workers and the fact that there is some range of different estimates on this. My reading of that literature is that with the exception of the impacts on native-born high school dropouts where some of the estimates are larger, all of the estimates suggest very modest effects on the domestic labor force, even in the short run, and even less effect in the long run.

And it raises an interesting question of why are all these effects so modest given that there are over 20 million immigrants in the labor market? Several different reasons. Immigrants are consumers as well as workers. They, therefore, raise the demand for goods and services and for labor as well as the supply of labor. Immigrants, as said earlier, remain concentrated in a limited number of states and in a limited number of sectors, which means most native-born workers can avoid direct competition with those immigrants in a variety of ways. And of course all of this depends on the strength of the labor market.

If we go back to the very strong labor markets of the 1990's, demand was so strong that it is hard to imagine that immigrants were really displacing or taking jobs from any native-born workers. In the past 5 years, labor markets have been somewhat weaker.

Perhaps the degree of competition has grown, although we don't expect that to last forever.

So most workers, with the exception again of the high school dropouts, there is consensus that the effects are modest, if they are negative at all.

I want to focus on a few of the more positive effects of immigrants on the economy. Some of these have already been earlier alluded to. Immigrants do reduce consumer prices in several important sectors. Because of where immigrants are concentrated, the sectors of food, clothing and housing all end up with lower consumer prices because of their presence. It is hard to quantify how big those are, but we believe they are significant.

And this is especially important for low-income consumers who spend the vast majority of their disposable income exactly on these products—food, clothing and housing.

There are perpetual shortfalls of workers in some key sectors of our economy, notably health care and especially elder care. Immigrants are now helping to meet those shortfalls already at all different levels of skill, the level of nursing and further down the ladder, nurse's aids and personal aids as well.

And, of course, as was said earlier, as the baby boomers retire, the shortfalls in these sectors will really become quite dramatic, and immigrants will be important in helping to meet those needs.

Of course, there are also fiscal benefits of immigrants over the next several decades as immigrants and their children will become taxpayers while so many native-born retirees start to draw their retirement benefits.

Immigrants also provide large numbers of graduate students in science, math and engineering. To the extent that large numbers of them do stay here, as many of them do, they will help our economy remain competitive in these sectors, vis-a-vis the growing competitiveness of other countries like India and China. So I think that is an important benefit as well.

When we come to policy discussions, some analysts recommend that we change our legal immigration laws to put a lot more emphasis on skill and education rather than family ties. And those arguments do have some merit. I simply want to point out a few other things.

No. 1, the benefits of immigration that we derive occur at all levels, even for relatively unskilled workers. The skill level of the workers grow over time, as we said earlier, especially across generations. And, finally, it is possible that if we limit the legal immigration of skilled workers, that we might raise the illegal immigration of those unskilled workers. I don't know if we have effective and politically feasible ways of limiting those increases, and I think we need to be concerned about that.

Perhaps we need to think about alternative mechanisms whereby over time some of those illegal workers can become legal and then they would start being paid market wages and paying taxes, and they would do less to undercut the wages of native-born workers and the economy. So I think we need to think about those alternatives.

And, finally, with my few remaining seconds, let me just say, less educated native-born workers in the United States have been hurt

in the last few decades, in some cases quite dramatically, mostly because of forces that have nothing to do with immigration. They have to do with new technologies, they have to do with trade patterns, they have to do with the weakening of domestic institutions, like the minimum wage and collective bargaining.

If we want to help low-wage workers in the United States, I encourage the U.S. Congress to consider education and training policies, minimum wage policies, collective bargaining policies, also health care, child care and parental leave policies, which all of us in this room take for granted in our jobs. I think these would have very positive effects on native-born workers and in many ways more important than the impact on controlling immigration.

Thank you very much.

[The prepared statement of Mr. Holzer follows:]

Prepared Statement of Dr. Harry J. Holzer, Professor of Public Policy, Associate Dean, Georgetown University

There are currently nearly 40 million foreign-born residents of the U.S., and about 22 million of them are in the workforce. They constitute about 15 percent of the workforce. Immigrants have been arriving in the U.S. at a consistent rate of about 1.3 million per year over the past decade or so. Perhaps 10-11 million residents, and 6-7 million workers, are undocumented (or illegal) immigrants.

Over two-thirds of all immigrants reside in six states (CA, NY, TX, FL, NJ and IL), though their concentrations in these states have been declining over time. Immigrant workers also concentrate quite heavily in a limited number of industries, such as agriculture, construction, accommodations, food preparation and nondurable manufacturing. Nearly 30 percent of immigrants are high school dropouts, but about a fourth are college graduates. Immigrants constitute large fractions of the current population of U.S. graduate students, especially in science and engineering.[1]

Employment Effects

One of the most controversial issues surrounding immigration has always been its impact on employment outcomes of native-born workers. Do immigrants take jobs from U.S. citizens, and thus reduce their earnings and employment levels? What is the extent of competition between these groups?

Professors George Borjas and Lawrence Katz of Harvard University have recently calculated that immigration in the period 1980-2000 might have reduced the earnings of native-born U.S. workers by 3-4 percent, with larger negative impacts among high school dropouts but smaller among all other education groups (Borjas and Katz, 2005). Their estimates are at the high end of those generated by labor economists; others, including Professor David Card of the University of California at Berkeley, have found fairly negligible negative effects (Card, 2001). These different estimates represent two different statistical approaches to estimating the impacts of immigration, both of which are plausible but each having its own limitations. But a consensus view among labor economists would probably suggest that immigration has reduced the earnings of less-educated native-born Americans by a modest amount, and perhaps somewhat more among high school dropouts.

Given the magnitude of migration to the U.S. in recent years, why has immigration not had an even larger negative effect on the earnings of native-born workers? The modest impact of immigration is probably due to the following factors:

- Immigrants are consumers as well as workers. They raise the demand for goods and services where they reside, as well as the supply of labor.
- Immigrants remain quite heavily concentrated in a small number of states, and in a small number of occupations and industries in those states. Many, though not all, of the least-educated immigrants work in low-wage jobs to which the supply of native-born labor is limited, while those who are more heavily educated work in fields (such as science and engineering) where employment growth remains very strong.
- Native-born workers tend to offset the effects of immigration by moving elsewhere, thereby further reducing the amount of direct competition for jobs between the two groups.

It is also important to note that some employers prefer immigrants to native-born workers in low-wage jobs, at least partly because the undocumented status of some allows employers to pay them below-market wages; the degree of competition be-

tween these workers and the native-born is thus exacerbated by the illegal status of many among the former. Employers also tend to perceive a stronger work ethic among the immigrants, even at comparable wages (Kirschenman and Neckerman, 1991). On the other hand, in the absence of these workers, some employers would have to pay somewhat higher wages and benefits, and might well attract more and higher-quality native-born labor.

The extent of competition over jobs between native-born and immigrant workers also depends, to some extent, on the overall strength of the U.S. labor market. The rate of new immigration to the U.S. has been constant over the period of the past 15 years. During the very tight labor markets of the late 1990's, demand for workers was very strong in the U.S., and native-born workers enjoyed high employment rates and strong wage growth despite the presence of many immigrants. On the other hand, the slowdown in U.S. labor markets since 2001 has likely exacerbated the competition between these groups (Sum, 2004; Holzer, 2005).

Other Economic Effects

Immigration tends to have other effects on the U.S. economy. For instance, by reducing the costs and prices of domestically-produced items such as food, clothing and housing, immigration confers some benefits on the U.S. consumer—especially low-income consumers, who spend large fractions of their disposable incomes on these items.

The exact magnitudes of these effects are somewhat hard to quantify (Borjas, 1995; Card, 2005), though rising numbers of immigrant workers in any sector leads to both greater competition over jobs and greater benefits to consumers.

By providing workers at different skill levels to the health care and elder care industries, foreign-born workers tend to reduce labor shortages that might otherwise occur, and thus help increase the supply (and reduce the cost) of health care services to Americans.[2] And by providing more students and professionals in the fields of science and engineering, they help the U.S. to maintain its international "comparative advantage" in these fields.

As we look to the future, these contributions in many areas may grow more important. For example, as "baby boomers" begin retiring in large numbers over the coming decade, the supply of immigrant labor to the health care and elder care fields will become even more critical for averting shortages of services in these areas. By supplying more younger workers and fewer retirees, new immigration will help reduce the nation's fiscal imbalances over the next several decades. And by replenishing the nation's supply of scientists and engineers, highly-educated immigrants will be critical to the preservation of U.S. strength in technological innovation, especially as other countries (like China and India) become more competitive in these areas (Freeman, 2004).

There are some other economic costs to immigration. For example, since immigrants are more heavily concentrated among low-income Americans, they tend to draw payments from means-tested programs at a higher rate than do native-born Americans. On the other hand, the reforms to welfare and other programs in the 1990's reduced this greater dependence, to some extent (Borjas, 2001; Fix, 2001).

Overall, these data imply some significant economic benefits to immigration, both now and in the future, and especially to low-income consumers. It imposes some modest fiscal costs on the U.S. right now, though its fiscal benefits will grow over time.

Policy Implications

The discussion above suggests that it would be economically unwise to drastically curtail immigration to the U.S. The prices of some important categories of consumer goods would rise significantly, while employment shortfalls would be exacerbated in some key sectors as well.

To the extent that illegal immigration imposes greater costs on U.S. workers, it might be helpful to curb that component of immigration. But there is no obvious method of doing so. Much stiffer employer sanctions for the hiring of undocumented workers might accomplish this, though its practicality from an enforcement perspective (and also politically) remains unclear. On the other hand, by providing some means for undocumented immigrants to ultimately obtain legal status, we could help "level the playing field" between these immigrants and native-born workers with whom they compete for some jobs.

Some analysts (e.g., George Borjas of Harvard University) have argued for a new system that puts greater emphasis on the education and skills of prospective immigrants, and less emphasis on their family members in the U.S., as determinants of who obtains the right to enter legally. Indeed, such criteria are used more heavily

in Canada, Australia, New Zealand, and elsewhere. This could also be accomplished with a major expansion of the H1-B visa program for highly-educated immigrants.

This viewpoint has some merit, as the economic benefits of highly educated immigrants to the U.S. economy are quite substantial, while their costs (in terms of competition for jobs and fiscal drain) are more modest. On the other hand, it is important to remember that many of the benefits of immigration to the U.S.—in terms of reduced costs of commodity goods and greater supply of services to the health and elder care sectors—also derive from less-educated immigrants. And limiting the legal flow of immigrants might well exacerbate the flow of illegal immigrants to the U.S., whose presence is more costly to native-born workers.

Of course, some less-educated Americans have been hurt by immigration, and more importantly by many other forces in the U.S. labor market—such as new technologies, foreign trade, the diminishing presence of unions, and the decline in the statutory levels of the minimum wage. It would be more helpful to these workers to focus on improving their skill levels (through better education and training), improving the quality of jobs to which they have access (through moderate increases in the federal minimum wage, reforms that make it easier for low-income workers to organize, and public supports for employers that provide training and advancement opportunities), and extending the work supports available to them (through child care, parental leave and health insurance) instead of threatening to curb immigration, whose economic impacts on lower-income Americans are more mixed.

Finally, it is important to remember that immigration policy should be driven by both economic and non-economic considerations. The latter might include the economic benefits we confer on the residents of poorer nations in our hemisphere, the political stability and diplomatic benefits we derive from such help, as well as our values as a land of opportunity and inclusion to people from around the world.

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ENDNOTES

[1] These facts and figures are drawn from Borjas (2005), Passel (2005), and Sum (2005), among others.

[2] See, for instance, Stone and Wiener (2001). Shortages in the labor market for health care and elder care workers might persist over time because wages, limited in part by third-party

reimbursement rules, cannot rise quickly enough to bring "equilibrium", or balance between supply and demand, to these markets.

Mr. MCKEON. Thank you.
Dr. Camarota?

STATEMENT OF DR. STEVEN A. CAMAROTA, DIRECTOR OF RESEARCH, CENTER FOR IMMIGRATION STUDIES

Mr. CAMAROTA. Well, thank you, Mr. Chairman and members of the committee, for inviting me here to speak about immigration. Clearly, this is a very important topic with 1.5 million new legal and illegal immigrants settling in the United States each year and a total foreign-born of about 36 million, about 11 million of whom are illegal aliens. Immigration is clearly a very important issue to think about.

Now, for policymakers who are thinking about the economics of immigration, I would argue passionately that it is probably best to focus more on the winners and losers from this policy rather than the overall economic impact. I say this because economic research indicates that the overall effect of immigration on the economy in the aggregate is actually very small or miniscule in the words of the nation's top immigration economist.

And these effects are even smaller when we focus just on the one-fourth to one-third of immigrants who are illegal alien.

The National Research Council in its 1997 study, "The New Americans," estimated that the net gain to native-born Americans from immigration was equal to only about two-tenths of 1 percent of our economy at that time, or about $6 billion.

This benefit was generated by reducing the wages of workers at the bottom end of the labor market by about 10 percent. And they estimated that about half the decline in wages for that group was caused by immigration.

Now, the benefit is so small because people at the bottom end of the labor market already make very modest wages, so even flooding the unskilled labor market and reducing their wages still further cannot have a large overall impact.

And this is an important point. People who argue there is very little wage impact sometimes make the mistake of saying, "But it saves consumers a lot of money." Those two things can't be true. If employers pay the same with or without the presence of immigrants, then there is no benefit for the rest of us to divide.

Now, a more recent study published in the Quarterly Review of Economics suggested that the impact on the bottom 10 percent was more like 7.4 percent.

Now, also I think important is the National Academy's fiscal estimate, what do immigrant families pay in taxes and use in services? And they found a negative $20 billion currently, much larger, actually, than the very tiny economic gain that we receive from immigration.

Now, immigration's effects are also very small when we look at the aging of American society. It is true that immigrants tend to arrive young, but the fact is their differences with natives aren't that great, and they age like everyone else. In fact, in the 2000 cen-

sus, the average age of an immigrant was 39. The average age of a native-born American was 35.

In addition, the Census Bureau, when it looks to the future, finds that if we have 150,000 immigrants come in a year, they estimate that the working age share, say, ages 16 to 64, would make up about 59 percent of our population. If we had 1 million immigrants a year, that is a lot more immigration, they estimate the working age share would be about 60 percent of the population.

The impact is so small because immigrants are not just workers; they are human beings. So, naturally, they add to both the working age population and the population too old or too young to work.

Now, although the impact of immigration may be very small on the economy, the impact on some American workers might be very large. The Quarterly Journal of Economics article that I cited suggested that immigration in the aggregate reduced wages for those in competition with immigrants by about $1,700 a year.

Now, if we decided to have less unskilled immigration and began to enforce our laws, what would happen over time? Obviously, no one is suggesting mass deportations. It would take a while to begin a ratcheting up of enforcement to make illegals go home in much larger numbers.

Now, if we did that, what would happen? Well, first, there would be a rise in wages and benefits offered by employers to retain natives or to attract new natives and legal immigrants to occupations. And this would improve the lives of the poorest American workers.

Now, we need not worry that there is some kind of labor shortage of unskilled labor in the United States. There are 1.8 million unemployed natives in construction, building cleaning and maintenance and food processing alone. In addition, there are 7.5 million natives not even in the workforce who haven't completed high school, and these are all adults. There are 13 million natives who have only a high school education and no education beyond that who are also not in the workforce.

Now, the other thing employers would do if we had less immigration is obviously they would begin to invest in labor-saving devices and techniques. Now, if there are businesses that simply can't pay anymore to stay in business, then maybe those businesses should ship to other areas, because very low-wage workers are a very bad deal with taxpayers, because the people work and they also qualify for a host of social programs.

In conclusion, the latest research indicates that we can reduce immigration secure in the knowledge that it will not harm the economy. Those who support the current high level of unskilled immigration, including proposals to legalize illegal aliens rather than enforce the law and make them go home should at least do so with an understanding that the American workers harmed by such policies are already the most porous and most vulnerable.

Thank you.

[The prepared statement of Mr. Camarota follows:]

Prepared Statement of Dr. Steven A. Camarota, Director of Research, Center for Immigration Studies

Introduction

Few government policies can have so profound impact on a nation as immigration. Large numbers of immigrants and their descendants cannot help but have a signifi-

cant impact on the cultural, political, and economic situation in their new country. Over the last three decades, socio-economic conditions, especially in the developing world, in conjunction with U.S. immigration policy, have caused 25 million people to leave their homelands and emigrate legally to the United States. Additionally, the Immigration and Naturalization Service estimates that the illegal alien population grows by 400,000 to 500,000 each year.[1] The current influx has caused an enormous growth in the immigrant population, from 9.6 million in 1970 (4.8% of the population) to 35 million (12.1% of the population) today.

As in the past, immigration has sparked an intense debate over the cost and benefits of allowing in such a large number of people. One of the central aspects of the immigration debate is its impact on the American economy. While the number of immigrants is very large, as I will try to explain in this paper the impact on the overall economy is actually very small or "minuscule" in the words of the nation's top immigration economist. And these effects are even smaller when one focuses only on illegal aliens, who comprise one-fourth to one-third of all immigrants. While the impact on the economy as a whole may be tiny, the effect on some Americans, particular workers at the bottom of labor market maybe quite large. These workers are especially vulnerable to immigrant competition because wages for these jobs are already low and immigrants are heavily concentrated in less-skilled and lower-paying jobs. In this paper I will try to explain some of the way immigration can impact natives and the economy as a whole.

Four Reasons Immigration Can Impact Wages

Immigrants Might Work for Less. For the most part, the research generally indicate that a few years after arrival, immigrant wages are very similar to those of natives in the same occupation with the same demographic characteristics. This may not be true in all places and at all times, but in general it seems that only newly arrived immigrants undercut native wages. This is probably true of illegal aliens as well. While immigrants as a group and illegals in particular do earn less than native-born workers, this is generally due to their much lower levels of education. In other words, immigrants are poorer than natives, but they generally earn wages commensurate with their skills, which as a group tend to be much lower than natives.

Immigrants Are Seen as Better Employees. There is certainly a lot of anecdotal evidence and some systematic evidence that immigrants are seen as better workers by some employers, especially in comparison to native-born African Americans. It is certainly not uncommon to find small business men and women who will admit that they prefer Hispanic or Asian immigrants over native-born blacks. This is especially true of Hispanic and Asian employers, who often prefer to hire from within their own communities. We would expect this preference to result in lower wages and higher unemployment for those natives who are seen as less desirable.

A study of the Harlem labor market by Newman and Lennon (1995) provides some systematic evidence that employers prefer immigrants to native-born blacks. Their study found that although immigrants were only 11 percent of the job candidates in their sample, they represented 26.4 percent of those hired. Moreover, 41 percent of the immigrants in the sample were able to find employment within one year, in contrast to only 14 percent of native-born blacks. The authors concluded that immigrants fare better in the low-wage labor market because employers see immigrants as more desirable employees than native-born African-Americans. I have also found some evidence in my work that in comparison to whites, there is an added negative effect for being black and in competition with immigrants.

The Threat of Further Immigration. While no real research has been done on this question, the threat of further immigration may also exert a significant downward pressure on wages. To see how this might work consider the following example: Workers in a meat packing plant that has seen a sudden rise in the number of immigrant workers will very quickly become aware that their employer now has another pool of labor from which he can draw. Thus, even if immigrants remain a relatively small portion of the plant's total workforce, because of our relatively open immigration policy, the potential of further immigration exists. Therefore, native-born workers curtail their demands for higher wages in response to the threat of more immigration and this in turn holds down wages beyond what might be expected simply by looking at the number of immigrants in an occupation or even the country as a whole.

Immigration Increases the Supply of Labor. By far the most important impact immigration has on the workforce is that it increases the supply of labor. Based on the March 2005 Current Population Survey there were almost 21 million adult immigrants holding jobs in the United States.[2] However, they are not distributed evenly across occupations. In 2005, 30 percent of immigrants in the labor market had

no high school education, and for those who entered in the preceding five years, 34 percent lacked a high school degree. In comparison, only 8 percent of natives in the work force did not have a high school education. Overall immigrants comprise 15 percent of the total workforce. But they are 40 percent of those without high school diplomas in the work force, while accounting for 12 percent of workers with more than a high school education.

The occupational distribution of immigrants also shows their high concentration in jobs that require relatively few skills. In 2005, immigrants made up 6 percent of persons in legal services occupations (primarily lawyers and support staff), and 9 percent of individuals in managerial jobs. In contrast, they comprised 34 percent of workers doing building clearing and maintenance, and 26 percent of construction laborers. This means immigration has increased the supply of the some kinds of workers much more than others. As a result, any effect on the wages or job opportunities of natives will likely fall on natives employed in less-skilled and low-paying occupations. Given that they face much more job competition, it should not be surprising that less educated workers generally have a less favorable view of immigration. In contrast, more educated and affluent workers who generally have a more favorable view of immigration; tend to see immigrants as only, "taking jobs Americans don't want."

Workers not in Competition with Immigrants. If immigration reduces wages for less educated workers, these wages do not vanish into thin air. Employers now have more money either to pay higher wages to more educated workers or to be retain as higher profits. The National Research Council, in a 1997 study entitled "The New Americans," estimated that immigration reduced the wages of workers with less than a high school degree by about 5 percent. These workers roughly correspond to the poorest 10 percent of the workforce. But this reduction caused gains for the other 90 percent of workers equal to one or 2 tenths of one percent of their wages. The impact on educated workers is so small because workers at the bottom end of the labor market earn such low wages that even a significant decline in their wages only generates very modest gains for everyone else.

For reasons explained in greater detail in the NRC report, the aggregate size of the wage gains for more educated workers should be larger than the aggregate losses suffered by Americans at the bottom of the labor market, thereby generating a net gain for natives overall. The NRC's findings mean that the wages of workers without a high school degree are $13 billion lower because of immigration, while the wages of other natives are roughly $19 billion higher for a net gain of $6 billion. Of course, as a share of their income the losses to less-educated natives is much larger than the gains to other workers. And as share of the total economy the gain is very small. The two Harvard economists who did the NRC's labor market analysis argued that the benefit to natives, relative to the nation's 8 trillion dollar at that time economy, is "minuscule."[3] However, it should also be noted that while the effect on natives overall may be minuscule, the immigrants themselves benefit substantially by coming here.

Empirical Research

Attempts to measure the actual labor market effects of recent immigration empirically have often come to contrary and conflicting conclusions. Studies done in the 1980s and early 1990s, which compared cities with different proportions of immigrants, generally found little effect from immigration.[4] However, these studies have been widely criticized because they are based on the assumption that the labor market effects of immigration are confined to only those cities where immigrants reside.

Impact of Immigration Is National Not Local. The interconnected nature of the nation's economy makes comparison of this kind very difficult for several reasons. Research by University of Michigan demographer William Frey[5] and others, indicates that native-born workers, especially those natives with few years of schooling, tend to migrate out of high-immigrant areas. The migration of natives out of high-immigrant areas spreads the labor market effects of immigration from these areas to the rest of the country. There is also evidence that as the level of immigration increases to a city, the in-migration of natives is reduced.

In addition to internal migration patterns, the huge volume of goods and services exchanged between cities across the country creates pressure toward an equalization in the price of labor. For example, newly arrived immigrants who take jobs in manufacturing in a high-immigrant city such as Los Angeles come into direct and immediate competition with natives doing the same work in a low-immigrant city like Pittsburgh. The movement of capital seeking to take advantage of any immigrant-induced change in the local price of labor should also play a role in preserving wage equilibrium between cities. Beside the response of native workers and firms, immigrants themselves tend to migrate to those cities with higher wages and lower un-

employment. In short, the mobility of labor, goods, and capital as well as choices made by immigrants may diffuse the effect of immigration, making it very difficult to determine the impact of immigration by comparing cities.

The National Research Council. One way researchers have attempted to deal with the problems associated with cross-city comparisons is to estimate the increase in the supply of labor in one skill category relative to another skill category brought about by immigration in the country as a whole. The wage consequences of immigration are then calculated based on an existing body of literature that has examined the wage effects of changes in the ratio of skilled to unskilled workers. The National Research Council (NRC) relied on this method in its 1997 report entitled The New Americans.[6] The report was authored by most of the top economists and demographers in the field of immigration. The NRC estimates that immigration has had a significant negative effects the wages of high school dropouts. The NRC concluded that the wages of this group, 11 million of whom are natives, are reduced by roughly five percent ($13 billion a year) as a consequence of immigration. Not a small effect. Dropouts make up a large share of the working poor. Nearly one out of three native workers living in poverty lacked a high school education. The wage losses suffered by high school dropouts because of immigration are roughly equal to the combined federal expenditures on subsidized School Lunches, low-income energy assistance, and the Women Infants and Children program.

Center for Immigration Studies Research. My own research suggests that the effect of immigration may be even greater than the estimates in the NRC report.[7] I compared differences across occupations nationally and found that the concentration of immigrants in an occupation does adversely affect the wages of natives in the same occupation.

My results show that immigrants have a significant negative effect on the wages of natives employed in occupations that require relatively few years of schooling, accounting for about one-fifth of the labor force. In these occupations a one percent increase in the immigrant composition reduces the wages of natives by .8 percent. Since these occupations are now on average 19 percent immigrant, my finding suggests that immigration may reduce the wages of workers in these occupation by more than 10 percent. It should also be added that since native-born blacks and Hispanics are much more likely than whites to be employed in the adversely impacted occupations.

Other Research on Wages. Harvard professor George Borjas, who is regarded as the nation's leading immigration economist, found in a study published in 2003 by the Quarterly Journal of Economics that between 1980 and 2000, immigration reduced the average annual earnings of native-born men by an estimated $1,700 or roughly 4 percent.[8] Among natives without a high school education, who roughly correspond to the poorest tenth of the workforce, the estimated impact was even larger, reducing their wages by 7.4 percent. The 10 million native-born workers without a high school degree face the most competition from immigrants, as do the 8 million younger natives with only a high school education and 12 million younger college graduates. The negative effect on native-born black and Hispanic workers is significantly larger than on whites because a much larger share of minorities are in direct competition with immigrants.

While most of those adversely affected are less educated workers, Borjas's research indicates that the impact of immigration is throughout the labor market. The results for more skilled workers are particularly important because few of the immigrants in this section of the economy are illegal aliens, yet the effect is the same—lower wages for natives. This new research strongly indicates that the primary reason immigration lowers wages is not that immigrants are willing to work for less, rather lower wages are simply the result of immigration increasing the supply of labor.

Impact on Employment. While most research has focused on wage effects of immigration some work has also found an impact on employment. A 1995 study by Augustine J. Kposowa found that a 1-percent increase in the immigrant composition of a metropolitan area increased unemployment among minorities by .13 percent.[9] She concludes, "Non-whites appear to lose jobs to immigrants and their earnings are depressed by immigrants." A 1997 report published by the Rand Corporation, entitled "Immigration in a Changing Economy: California's Experience," and authored by Kevin McCarthy and Georges Vernez (1997) estimated that in California between 128,200 and 194,000 people were unemployed or withdraw from the workforce because of immigration. Almost all of these individuals either are high school dropouts or have only a high school degree. Additionally, most are either women or minorities.

Impact on Employment post-2000. More recent work done on immigration also suggests that immigration may adversely impacted native employment. A report I

authored for the Center for immigration Studies in 2004, showed that the number of employed natives was 500,000 fewer in March of 2004 than in March of 2000. In contrast, there has been a net increase of 2.3 million in the number of foreign-born workers holding jobs over this same time period. Put another way, there was a net increase of 1.7 million in the total number of adults working in United States, but all of that increase went to foreign-born workers.[10] About half the growth in immigrant employment was from illegal immigration.

Immigration has remained extremely high since 2000. By doing so at a time when the economy was not creating as many new jobs, immigration may have reduced job opportunities for natives and immigrants already here. We found that there was a 70 correction between native unemployment rates and the share of an occupation comprised of immigrants in 2004. One of the most troubling trends over this time period was an increase of 4 million in the number of natives 18 to 64 not in the labor force. Detailed analysis shows that the increase was not due to early retirement, increased college enrollment, or new moms staying home with their babies.

There is also little evidence that immigrants only do jobs Americans do not want. It is true that immigration has its biggest impact at the bottom end of the labor market, in relatively low paying jobs typically occupied by less-educated workers. But such jobs still employ millions of native-born workers. In job categories such as construction labor, building maintenance, and food preparation, immigration added 1.1 million adult workers in the last 4 years, but there were nearly 2 million unemployed adult natives in these very same occupations in 2004. Those arguing for high levels of immigration on the grounds that it helps to alleviate the pressure of tight labor markets in low-wage, less-skilled jobs ignore the very high rate of native unemployment in these job categorizes, averaging 10 percent in 2004. The findings of our 2004 employment study are very consistent with research on this subject. Andrew Sum and his colleagues at Northeastern University have also published several reports showing that all or almost of job growth 2000 to 2004 went to immigrants.

It would be a mistake to think that every job taken by an immigrants is a job lost by a native. Clearly many factors impact unemployment rates across occupations. But it would also be a mistake to assume that dramatically increasing the number of workers in less-skilled occupations has no impact on the employment prospects of natives. Perhaps most important, the large number of unemployed natives calls into question the argument that America is desperately short of workers to do these less-skilled job.

Benefits of Immigration

Of course, it is important to realize that wage losses suffered by the unskilled do not vanish into thin air. As already discussed, the NRC estimated that the gain resulting from the wage loses suffered by the unskilled is equal to about 1 or 2 tenths of one percent of our total economy. Thus, additional unskilled immigration can be justified on the grounds that it creates a very small net benefit for the country as a whole, though it is harmfulfor unskilled workers. There is some debate about the net benefit of immigration. A 2002 study published by the National Bureau of Economic Research (NBER) entitled "Technological Superiority and the Losses from Migration," found that there is no economic gain from immigration. In fact the loss to all natives totals nearly $70 billion dollars. But it must be remembered that neither the NRC study or NBER study take into account the benefits to immigrants.

Impact on an Aging Society

Some observers think that without large scale immigration, there will not be enough of a working age to support the economy or pay for government. It is certainly true that immigration has increases the number of workers in the United States. It is also true that immigrants tend to arrive relatively young, and it is also true that they tend to have more children than native-born Americans. Demographers, the people who study human populations, have done a good deal of research on the actual impact of immigration on the age structure. There is widespread agreement that immigration has very little impact on the aging of American society. Immigrants age just like everyone else; moreover the differences with natives are not large enough to significantly alter the nation's age structure. This simple fact can be seen clearly in the 2000 Census, which showed that the average age of an immigrants was 39, compared to 35 for natives.[11]

Another way to think about the impact of immigration on the aging of American society is to look at the working age population. In 2000, 66.2 percent of the population was of working-age (15 to 64), but when all post-1980 immigrants are not counted, plus all of their U.S.-born children, the working-age share would have been 65.9 percent in 2000. Immigration also does not explain the relatively high U.S. fer-

tility rate. In 2000, the U.S. fertility rate was 2.1 children per woman, compared to 1.4 for Europe, but if all immigrants are excluded the rate would still have been 2.0. Looking to the future, Census Bureau projections indicate that if net immigration averaged 100,000 to 200,000 annually, the working age share would be 58.7 percent in 2060, while with net immigration of roughly 900,000 to 1 million, it would be 59.5 percent. As the Bureau states in the 2000 publication, immigration is a "highly inefficient" means for increasing the working age share of the population in the long-run.[12] Census projections are buttressed by Social Security Administration (SAA) estimates showing that over the next 75 years, net legal immigration of 800,000 a year versus 350,000 would create a benefit equal to only .77 percent of the programs projected expenditures.

Of course, it must be emphasized that immigration does not make the country older. In fact, the impact is slightly positive. But, one can advocate less immigration secure in the knowledge that it will not cause the population to more age rapidly. There is no doubt that the aging of the nation's population will create very real challenges. But the level of immigration is almost entirely irrelevant to this problem. America will simply have to look elsewhere to met these challenges.

Policy Discussion

Knowing that low-skilled natives are made poorer or their unemployment increased by immigration does not tell us what, if anything, we should do about it. The extent to which we take action to deal with the wage and employment effects of immigration depends on how concerned we are about the wages of less-skilled natives. A number of scholars have argued that the inability of low-skilled workers to find work and earn a living wage contributes significantly to such social problems as welfare dependency, family breakup, and crime. One need not accept all the arguments made in this regard to acknowledge that a significant reduction in employment opportunities for the poorest Americans is a cause for real concern.

Help Workers But Leave Immigration Policy Unchanged. If we wish to do something about the effects of immigration, there are two possible sets of policy options that could be pursued. The first set would involve leaving immigration policy in place and doing more to ameliorate the harmful effects of immigration on natives in low-skilled occupations Since the research indicates that the negative impact from immigration falls on those employed at the bottom of the labor market, an increase in the minimum wage may be helpful in offsetting some of the wage effects of immigration, though doing so may exacerbate the unemployment effect. Most economists think that the minimum wage tends to increase unemployment. Increasing the minimum wage and keeping unskilled immigration high, may make this problem even worse.

Another program that might be helpful in assisting those harmed by immigrant competition is the Earned Income Tax Credit (EITC). There is little doubt that the Credit increases the income of low-wage workers. However, in addition to the high cost to taxpayers, the Credit may also hold down wages because it acts as a subsidy to low-wage employers. That is, employers have less incentive to increase wages because workers are now being paid in part by the federal government. Cutting low- and unskilled immigration, on the other hand, has no such down side for less-skilled workers nor is it costly to taxpayers. Moreover, the Credit only increases earnings for those with jobs, it does not address increased unemployment among the less-skilled that comes with immigration.

Reducing Unskilled Legal Immigration. The second set of policy options that might be enacted to deal with this problem would involve changing immigration policy with the intent of reducing job competition for natives and immigrants already here. If we were to reduce unskilled legal immigration we might want to change the selection criteria to ensure that immigrants entering the country will not compete directly with the poorest and most vulnerable workers. At present, only about 12 percent of legal immigrants are admitted based on their skills or education. Since two-third of permanent residency visas are issued based on family relationships, reducing the flow of low-skilled legal immigrants would involve reducing the number of visa based on family relationships. This might include eliminating the preferences now in the law for the siblings and adult children (over 21) of U.S. citizens and the adult children of legal permanent residents. These changes would not only reduce low-skilled legal immigration immediately, they would also limit the chain migration of low-skilled immigrants that occurs as the spouses of those admitted in the sibling and adult child categories petition to bring in their relatives.

Reducing Unskilled Illegal Immigration. In addition to reducing the flow of low-skilled legal immigrants, a greater allocation of resources could be devoted to controlling illegal immigration especially in the interior of the country. About one half of the immigrants working in such occupations as construction, building cleaning &

maintenance and food processing and preparation are estimated to be illegal aliens according to my own analysis and research done by the Pew Hispanic Center. A strategy of attrition through enforcement offers the best hope of reducing illegal immigration. The goal of such a policy would be to make illegals go home or self deport. The former INS estimates that 165,000 illegals go home each year, 50,000 are deported, and 25,000 die. But some 800,000 to 900,000 new illegals enter each year so there is a net growth of 400,000 to 500,000 a year.[13] If America becomes less hospitable to illegals, many more will simply decide to go home.

The center piece to interior enforcement would be to enforce the law barring illegals from holding jobs by using national databases that already exist to ensure that each new hire is legally entitled to work here. In 2004, only 4 employers were fined for hiring illegals. The IRS must also stop accepting Social Security numbers that it knows are bogus. We also need to make a much greater effort to deny illegal aliens things like divers licenses, bank accounts, loans, in-state college tuition, etc. Local law enforcement can play an additional role. When an illegal is encountered in the normal course of police work, the immigration service should pick that person up and deport him. More agents and fencing are clearly needed at the border as well.

Conclusion

As discussed above, the impact of immigration on the overall economy is almost certainly very small. Its short- and long-term impact demographically on the share of the population that is of working age is also very small. It probably makes more sense for policy makers to focus on the winners and losers from immigration. The big losers are natives working in low-skilled low-wage jobs. Of course, technological change and increased trade have also reduced the labor market opportunities for low-wage workers in the Untied States. But immigration is different because it is a discretionary policy that can be altered. On the other hand, immigrants are the big winners, as are owners of capital and skilled workers, but their gains are tiny relative to their income.

In the end, arguments for or against immigration are as much political and moral as they are economic. The latest research indicates that we can reduce immigration secure in the knowledge that it will not harm the economy. Doing so makes sense if we are very concerned about low-wage and less-skilled workers in the United States. On the other hand, if one places a high priority on helping unskilled workers in other countries, then allowing in a large number of such workers should continue. Of course, only an infinitesimal proportion of the world's poor could ever come to this country even under the most open immigration policy one might imagine. Those who support the current high level of unskilled legal and illegal immigration should at least do so with an understanding that those American workers harmed by the policies they favor are already the poorest and most vulnerable.

ENDNOTES

[1] See "Estimates of the Unauthorized Immigrant Population Residing in the United States: 1990 to 2000" available at uscis.gov/graphics/shared/statistics/publications/Ill—Report—1211.pdf.

[2] Figures for 2005 are from a forthcoming study by the Center for Immigration Studies entitled, "Immigrants at Mid-decade a Snapshot of American's Foreign-born Population in 2005."

[3] George Borjas and Richard Freeman's New York Times Opinion piece can be found at http://ksghome.harvard.edu/?GBorjas/Papers/NYT121097.htm.

[4] Altonji, Joseph G. and David Card. 1991. "The Effects of Immigration on the Labor Market Outcomes of Less-skilled Natives" in John M. Abowd and Richard B. Freeman editors, Immigration, Trade and Labor. Chicago: University of Chicago Press.

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[6] Edmonston, Barry and James Smith Ed. 1997. The New Americans: Economic, Demographic, and Fiscal Effects of Immigration, Washington D.C.: National Academy Press.

[7] Steven Camarota 1998. "The Wages of Immigration: The Effect on the Low-Skilled Labor Market," Washington D.C.: Center for Immigration Studies. Camarota, Steven A. 1997. "The Effect of Immigrants on the Earnings of Low-skilled Native Workers: Evidence from the June 1991 Current Population Survey," Social Science Quarterly, Vol. 78.

[8] For a technical version of Dr. Borjas research see http://ksghome.harvard.edu/?GBorjas/Papers/QJE2003.pdf, for a more plain English version see www.cis.org/articles/2004/back504.html.

[9] Kposowa, Augustine J. 1995. "The Impact of Immigration on Unemployment and Earnings Among Racial Minorities in the United States." Racial and Ethnic Studies, Vol. 18.

[10] The report "A Jobless Recovery: Immigrant Gains and Native Losses" can be found at the Center's web site www.cis.org/articles/2004/back1104.html

[11] These figures and ones on aging that follow can be found in a 2005 report by the Center for Immigration Studies entitled, "Immigration in an Aging Society: Workers, Birth Rates, and Social Security," which can be found at www.cis.org/articles/2005/back505.html.

[12] See page 21 of the Census Bureau's "Methodology and Assumptions for the Population Projections of the United States: 1999 to 2100." The report can be found at www.census.gov/population/www/documentation/twps0038.pdf

[13] See footnote number 1.

Mr. MCKEON. Thank you.

Mr. Siciliano?

STATEMENT OF DAN SICILIANO, ESQ., EXECUTIVE DIRECTOR, PROGRAM IN LAW, ECONOMICS, AND BUSINESS, STANFORD LAW SCHOOL

Mr. SICILIANO. Mr. Chairman and members of the committee, thank you for the opportunity to appear here today.

As said, I am Dan Siciliano. I am the executive director of Stanford Law School's Program in Law, Economic and Business. Part of what I do there is co-direct several projects related to institutional investors, venture capital and small business formation and growth. And a lot has been said today, so I will try to hone it down to maybe some relative supplementary points and try not to add too much to the number soup, which I think is starting to brew quite a bit.

Your hearing is timely and important, I think, not only because this is a very complex and hard topic but because I think we are several years into a demographic transformation that has tremendous economic impact. I will cover three points briefly, and then hopefully we will all answer questions.

First, the demographic reality, as concerns our workforce and supply of labor, is that we have too few workers going into a time when we hope to continue sustained growth. And it is both at the high end and at the lesser skilled worker level.

My second point, I want to focus on the economic implications, while putting into context the fiscal implications, which are different things, including why more recent models of the economy show that there is little or no negative wage impact due to immigrant labor available in the economy and its growth.

And, finally, and maybe most important in terms of it being a separate point that maybe hasn't been made, I want to talk a little bit about the remarkable economy that we have and that we talk about its resiliency and whether or not this immigrant labor availability has a lot to do with that resiliency.

And I will comment a little bit on job formation and the risk of moving from what you might describe as a very difficult environment to start and grow small businesses, to an impossibly difficult environment if we misstep, as concerns the availability of willing workers in our economy.

The demographic realities I think are fairly straightforward. I think the Congressional Budget Office has done among the best jobs of putting it all in one place for us. But, in short, the U.S. GDP growth forecast assumption from the Bureau of Labor Statistics data assumes 3 percent annual GDP growth through 2012. It looks

like, hopefully, that might actually be a conservative number if we can manage to grow our available workforce to account for the growth from 144 million jobs right now to 165 million jobs by 2012.

And just the difference in the jobs does not necessarily indicate the number of jobs that will need to be filled, because there is a vacancy created for departures from the workforce, not just because new jobs have been created. So 21 million jobs will be the relative increase between 2002 and 2012, but for every one of those jobs, we can expect about 2.5 job openings. The numbers, though complex and not worth belaboring here, I think, because they have already been provided to you, show simply that we do not have sufficient labor supply without immigrants in order to fill those jobs.

And as stated previously, the elements of economic growth are fairly straightforward. How they interact is complicated, but we know we need capital, we need labor, ad we know technology plays an important role. If you over-constrain one of those, we end up finding ourselves in a position where we have not achieved the growth that we want, and that means our children and our grandchildren, and if we do it with a terrible misstep, ourselves. We will not experience the growth in the economy we hope to see.

Current immigration, therefore, temporary, permanent or otherwise, is essentially inadequate if we ratcheted down to what is legally allowed at this time.

Let me make a comment on the dynamic versus static model of the economy where people discuss does it hurt current native-born workers or does not hurt current native-born workers? I think the consensus is that it, by and large, only hurts, the influx of immigrant labor, a narrow portion of native-born workers.

And the reason is because using a dynamic approach, meaning an understanding that immigrants themselves come to the United States and not only contribute to the workforce but contribute as consumers and investors and then, in turn, and this is the big difference, in the most recent studies coming out of both U.C.-Berkeley and U.C.-Davis, the business formation alters.

People will redeploy capital in a way that accounts for the fact that there is available labor. This, in turn, allows the economy to grow and create more jobs, which maybe brings me to my final point. And that it is an art form in the Silicon Valley when we say, "'What creates jobs, what builds companies, what allows us to move forward as an economy?"

I don't think anyone has very hard and fast answers to that, but one thing we do know is that people are at the heart of that essential growth phenomena. And if we inadvertently constrain people at the low-skill end or the high-skill end, we may actually make it too hard to grow companies, too hard to form companies. And I think that is something that requires more study.

And I wish I could have a ready-made answer for what the correct answer is, but I think one part of that, one important tool is to realize that immigrant labor, immigrants coming to the United States, documented and undocumented, have historically played, and based on the demographics will continue to play, a very critical role in that.

So thank you.

[The prepared statement of Mr. Siciliano follows:]

Prepared Statement of Dan Siciliano, Esq., Executive Director, Program in Law, Economics, and Business, Stanford Law School

Mr. Chairman and members of the committee, thank you for the opportunity to appear before you today. My name is Dan Siciliano and I am the Executive Director of the Program in Law, Economics, and Business at Stanford Law School. I am also a research fellow with the Immigration Policy Center (IPC) at the American Immigration Law Foundation, a non-partisan, non-profit foundation focused on research and writing about the role of immigrants and immigration policy in the United States.

Today's hearing on U.S. immigration policy and its impact on the American economy comes at a critical time. Efforts are underway in the House and in the Senate to repair a system that is generally acknowledged to be broken. I suggest that any reform to immigration policy should be evaluated by considering how immigrants directly, and as the evidence now seems to indicate, positively impact our nation's economic prosperity.

Much of the public debate over immigration in the United States has focused on the rapid growth of the undocumented population over the past decade and a half. However, undocumented immigration is just one symptom of the larger disconnect between U.S. immigration policy and the reality of our economy's fundamental reliance on a diverse and, hopefully, growing pool of available labor. The U.S. economy has become increasingly reliant on immigrant workers to fill the growing number of less-skilled jobs for which a shrinking number of native-born workers are available. Yet current immigration policies offer very few legal avenues for workers in less-skilled occupations to enter the country. Undocumented immigration has been the predictable result of the U.S. immigration system's failure to respond effectively to actual labor demand.

Many critics of immigration point to economic arguments that the presence of immigrants, particularly undocumented immigrants, has broad negative consequences for the native-born workforce. Some claim that immigration reduces employment levels and wages among native-born workers. This is generally not true. These arguments are largely the result of an over-simplified economic model used to measure the impact of immigration on the workforce, while ignoring the role that immigrants play in expanding the economy and stimulating labor demand through their consumer purchases and investments. Moreover, the empirical evidence indicates that businesses expand through the investment of more capital when the labor supply is not artificially constrained. Careful analysis and more recent studies add a dynamic component to the economic analysis of immigration by treating immigrants (both documented and undocumented) as real economic agents: earning, spending, and investing in the economy. Businesses, in turn, are considered dynamic as well: adjusting to the available resources and expanding accordingly.

Few argue with the notion that immigration provides many benefits to the United States. As a nation of immigrants, our culture, customs, and traditions reflect the diverse backgrounds of the millions of individuals who have made their way to America over time. But more than cultural benefits, recent economic analysis, including work by Giovanni Peri of the University of California, shows that the United States sees real economic benefits from immigration. Native-born wages increased between 2.0 and 2.5 percent during the 1990s in response to the inflow of immigrant workers.[1] Overall annual growth in the Gross Domestic Product is 0.1 percentage point higher as a result of immigration—a misleadingly small number that represents billions of dollars in economic output and, when compounded across a generation, represents a significant improvement in the standard of living of our children and grandchildren.

The positive impact of immigration results in part from the fact that immigrants help to fill growing gaps in our labor force. These gaps develop as aging native-born workers, in larger numbers than ever before, succeed in attaining higher levels of education and subsequently pursue higher-skill, higher-wage jobs. If the United States were to reform the immigration system to better address the demand for foreign-born labor, largely through ensuring that such workers were a part of the transparent and competitive "above ground" economy, the economic benefits of immigration could be even greater that what we have already experienced. Immigrants and their employers would likely benefit from a more predictable workforce environment and less time and resources would be spent addressing the dysfunction that is a result of a strong demand for a labor force that our laws do not accommodate.

Undocumented immigration is largely the result of two opposing forces: an immigration policy that significantly restricts the flow of labor and the economic reality of a changing native-born U.S. population. The extent to which the U.S. economy has become dependent on immigrant workers is evident in the labor force projec-

tions of the Bureau of Labor Statistics (BLS). According to BLS estimates, immigrants will account for about a quarter of labor force growth between 2002 and 2012. Given that roughly half of immigrants now arriving in the United States are undocumented, this means that 1 in 8 workers joining the U.S. labor force over the coming decade will be undocumented immigrants. Many of the jobs that would be harder to fill without this labor supply are already associated with immigrant labor: construction, agriculture, meatpacking, and hospitality. A growing number of immigrants, however, are also filling jobs in fields that are vitally important to serving America's aging population, such as home healthcare. This indicates that while policymakers debate the relative merits of various immigration reform proposals, immigration beyond current legal limits has already become an integral component of U.S. economic growth and will likely remain so for the foreseeable future.

The Impact of Immigrants on Native-Born Wages

Despite the critical role that immigration plays in preventing labor shortages that might impede economic growth, many critics of immigration argue that foreign-born workers reduce the wages of native-born workers with whom they compete for jobs. However, this argument relies on an overly simplistic understanding of labor supply and demand that fails to capture the true value that immigrants bring to the economy. If you are to gauge accurately the economic impact of immigration, the role that immigrants play in creating jobs is just as important as the role they play in filling jobs.

To analyze the impact of immigration on the U.S. economy as a whole, economists can use two models: "static" and "dynamic." The static model is the simplest and most frequently used by critics of immigration, yet it is the least realistic because it fails to account for the multi-dimensional role that immigrants play as workers, consumers, and entrepreneurs. The dynamic model, on the other hand, offers a more nuanced portrait of immigrants as economic actors. The net economic benefits of immigration are apparent in both models, but are larger in the dynamic model.

Under the static model, economists assume that immigrant workers serve only to increase the labor supply, which results in slightly lower wages and thus higher profits for the owners of capital. In other words, if there are more workers competing for a job, an employer might pay a lower wage for that job and pocket the difference. For instance, under the static model, the 125 million native-born workers in the United States in 1997 would have earned an average of $13 per hour if not for the presence of immigrants. However, the 15 million immigrant workers who were actually in the country increased the labor force to 140 million and, under the static scenario, thereby lowered average wages by 3 percent to $12.60 per hour. Nonetheless, the net benefit to the U.S. economy of this decline in wages would have amounted to about $8 billion in added national income in 1997.

Despite the seeming simplicity of this logic (more workers competing for jobs results in lower wages for workers and higher profits for businesses), the assumptions underlying the static model bear little resemblance to economic reality. Recent evidence supports the contention that the impact of immigration on wages is not as simple, or negative, as the static model would suggest. A 2004 study found that, despite the large influx of immigrants without a high-school diploma from 1980 to 2000, the wages of U.S.-born workers without a diploma relative to the wages of U.S.-born workers with a diploma "remained nearly constant."[2]

The inability of the static model to explain this finding rests in part on the fact that the model incorrectly assumes immigrant and U.S.-born workers are perfectly interchangeable; that is, that they substitute for each other rather than complement each other in the labor force. Common sense alone suggests that this is not always the case. For example, less-skilled foreign-born construction laborers enhance the productivity of U.S.-born carpenters, plumbers, and electricians, but do not necessarily substitute for them. More broadly, the different educational and age profiles of foreign-born and native-born workers indicate that they often fill different niches in the labor market.

More importantly, the static model fails to account for the fact that immigrants spend money or invest capital, both of which create jobs and thus exert upward pressure on wages by increasing the demand for labor. This amounts to more than a minor omission given the scale of immigrant purchasing power and entrepreneurship. For instance, in 2004, consumer purchasing power totaled $686 billion among Latinos and $363 billion among Asians.[3] Given that roughly 44 percent of Latinos and 69 percent of Asians were foreign-born in that year, the buying power of immigrants reached into the hundreds of billions of dollars.

The dynamic model accounts for many of these additional economic contributions by immigrants. In the dynamic scenario, immigrant workers spend some of their wages on housing and consumer goods, which in turn increases the demand for

labor by creating new jobs. Rising labor demand then increases wages relative to what would have existed if immigrant workers had not been present in the labor market. The result is a larger economy with higher employment.

The Impact of Immigrants on Native-Born Employment Levels

An IPC research report released today provides strong demographic evidence that the impact of immigrants on native-born employment levels is extremely limited or, in some case, positive. The report examines the significant differences between the native-born workforce and the immigrant workforce and finds that immigrants are largely complementary to the native-born in education, age and skill profile. The complementary nature of immigrant labor makes it unlikely that immigrants are replacing a significant number of native-born workers, but are instead moving into positions that allow native-born workers to be more productive.

As the number of less-skilled jobs continues to grow, it will become increasingly difficult for employers to find native-born workers, especially younger ones, with the education levels that best correspond to those jobs. In this sense, immigrant workers are a vital complement to a native-born labor force that is growing older and better educated. On average, foreign-born workers tend to be younger than their native-born counterparts and a larger proportion have less formal education. In addition, immigrants participate in the labor force at a higher rate. As a result, immigrants provide a needed source of labor for the large and growing number of jobs that do not require as much formal education.

Immigrant Workers are More Likely to Have Less Formal Education

Immigrants comprise a disproportionate share of those workers who are willing to take less-skilled jobs with few or no educational requirements. In 2004, 53.3 percent of the foreign-born labor force age 25 and older had a high-school diploma or less education, compared to 37.8 percent of the native-born labor force. Immigrant workers were more than four times as likely as native workers to lack a high-school diploma. In contrast, immigrant workers were nearly as likely to have a four-year college degree or more education, amounting to more than 30 percent of both the native-born and foreign-born labor force.

In general, foreign-born workers are more likely to be found at either end of the educational spectrum, while most native-born workers fall somewhere in the middle. Roughly three-fifths of the native-born labor force in 2004 had either a high-school diploma or some college education short of a four-year degree, whereas three-fifths of the foreign-born labor force either did not have a high-school diploma or had at least a four-year college degree. Given their different educational backgrounds, most native-born workers are therefore not competing directly with foreign-born workers for the same types of jobs.

Immigrant Workers Tend to be Younger

Immigrants also include a large number of younger workers, particularly in the less-skilled workforce. In 2004, 67 percent of the foreign-born labor force with a high-school diploma or less education was between 25 and 45 years old, as opposed to 52 percent of the native-born labor force with no more than a high-school diploma. While relative youth is not a requirement for many jobs, it is an asset in those less-skilled jobs that are physically demanding or dangerous.

Given the different age and educational profiles of foreign-born and native-born workers, it is not surprising that immigrants comprise a disproportionately large share of younger workers with little education. In 2004, immigrants made up more than a quarter of all workers 25-34 years old with a high-school diploma or less, and more than half of workers 25-34 years old without a high-school diploma. Employers searching for younger workers in less-skilled positions therefore often find that a large portion of prospective hires is foreign-born.

The Fiscal Costs of Immigration

Critics of immigration often focus on the fiscal costs of immigration instead of the economic benefits. These costs are often exacerbated by the undocumented status of many immigrants. An immigration policy that acknowledged the economic need for and benefits of immigration would significantly reduce these costs. To support the contention that immigrants are a net fiscal drain, critics cite studies indicating that immigrants contribute less per capita in tax revenue than they receive in benefits. However, these studies fail to acknowledge that this has more to do with low-wage employment than with nativity. Native-born workers in low-wage jobs similarly receive benefits in excess of the level of taxes paid. However, net tax revenue is not the same as net economic benefit. In addition, this analysis ignores the fact that in the absence of sufficient immigrant labor, unfilled low-wage jobs, regardless of the relative tax implications, hurt the economy.

Conclusion

Immigration is a net positive for the U.S. economy and the presence of immigrants does not generally harm the native-born workforce. Studies that purport to demonstrate a negative impact on native-born wages and employment levels rely on an overly simplistic economic model of immigration and the economy. The most recent demographic analysis in conjunction with more sophisticated economic modeling reveals that most immigrants, including undocumented immigrants, do not compete directly with native-born workers for jobs. Instead, these immigrants provide a critical element of our nation's economic success and continued resiliency: a relatively young, willing, and dynamic supply of essential workers in areas such as healthcare, construction, retail, and agriculture. These are jobs that, once filled, enable our economy to continue the cycle of growth and job creation.

Indeed, this makes clear that the implication of the government's own BLS data cannot be ignored. To prosper, our economy desperately needs workers at both ends of the spectrum: young and less skilled as well as more educated and highly skilled. As a nation, we are in the midst of a slow-motion demographic cataclysm unlike any we have previously experienced. Immigration is not the only tool for seeing our way clear of the coming storm—but it is one without which we will not prosper. Without a continued and normalized flow of immigrant labor our workforce will fall well short of the numbers needed to meet the emerging demand for labor. The result will be an erosion of both the growth and increased standard of living that our citizenry has come to expect and to which future generations are entitled. Until the United States adopts a more articulated and thoughtful immigration policy that accommodates these economic realities, the insufficiency of current immigration and the problematic nature of undocumented immigration, in particular, will continue to hobble the economy.

ENDNOTES

[1] Gianmarco I.P. Ottaviano & Giovanni Peri, Rethinking the Gains from Immigration: Theory and Evidence from the U.S. London: Centre for Economic Policy Research, September 2005.

[2] David Card, Is the New Immigration Really So Bad? (CDP No 02/04). Centre for Research and Analysis of Migration, Department of Economics, University College London, April 2004, p. 23

[3] Jeffrey M. Humphreys, "The multicultural economy 2004: America's minority buying power," Georgia Business and Economic Conditions 64(3), Third Quarter 2004 (Selig Center for Economic Growth, University of Georgia).

Mr. MCKEON. Thank you very much.

The Chair recognizes the gentleman from Maryland, Mr. Van Hollen, for 5 minutes.

Mr. VAN HOLLEN. Well, thank you, Mr. Chairman.

Thank all of you for your testimony here this morning.

Mr. Holzer, in his testimony, talked about the fact that he though there were a number of other factors that essentially depressed wages or made it harder for high school dropouts to get in the workforce, other than immigration, illegal or legal immigration. You ticked off a number of those new technology trade policies, workforce development, lack of increase in the minimum wage recently, collective bargaining policies, those kinds of things.

And I think if you look at those parts of the country where you don't have a lot of immigrant labor, it is absolutely clear that those individuals that are high school dropouts, lower skills have the higher unemployment rate. It is not that they are not able to get jobs because there is someone else there to take it, it is that they have these lower skills.

So I guess my question to all of you would be, what do you think about that analysis?

Maybe you could expand on it, Mr. Holzer, but I would be interested in the response of the other two witnesses as to whether you think those are larger factors with respect to the challenges faced

by high school dropouts than the competition from immigrant labor?

Mr. HOLZER. I certainly agree with your summary of my position. Let's look at high school graduates. Male high school graduate workers in the United States have seen as large declines in their wages as high school dropouts have, and there is no estimate to suggest that immigrants have played a big role in the decline of wages for high school graduates. That is almost certainly due to these other factors we have discussed, probably the most important one being new technologies, trade patterns, but as I sort of said, the decline of the institutions that traditionally have protected those workers.

High school dropouts, you probably can make an argument that immigrants have played a somewhat larger role, but even there you have equally fine studies by different distinguished economists that come to very different conclusions. One study, cited by Mr. Camarota, defines a somewhat larger effect, at most half, of the shortfall for the dropouts and likely less than that. Other studies find only negligible effects.

These other factors, the technology factors, the trade factors, the institutional changes almost certainly have hurt all of those groups, and there is very little disagreement among economists that those other factors predominate.

Mr. SICILIANO. I think it is certainly the case that it is no fun being on the receiving end of disruptive changes in the economy, and there are portions of the economy that win and there are players in the economy who do not win.

And I think the issue then becomes one of distribution and the distributional consequences. I think it is important to separate the two issues. One is, what grows the economy well and what grows the economy in a net outcome sort of way? I think it is clear that immigration does do that.

Then you need to assess carefully who got hurt in that process and how do we ameliorate that, how do we change that, how do we improve their outcomes? And I think those are separate discussions that are obviously related but one does not indicate you should abandon the tool which helps you grow the economy. I think that would be my additional contribution to that comment.

Mr. CAMAROTA. Let me tell you what the National Research Council when they looked at this question said. They thought the economy was national in scope so that you couldn't look at labor markets locally because the movement of labor, capital, technology, trade and so forth made it that you had to look nationally. They estimated half the decline in wages for the bottom 10 percent or workers who roughly correspond to that was due to immigration; the other half were some of the other factors.

I think there is some confusion here about economic growth. Adding more workers most assuredly makes our economy bigger. Immigrants are generally poorer than native, so when we count them, our per capita income or our GDP is certainly smaller. But neither of those two facts, the fact that the overall poverty rate and the overall level of income or average income or per capita income is lower because we count out the immigrants or that the overall aggregate economy is bigger doesn't mean natives are better off.

That is why when the National Academy focused, it discussed these questions and then found that the impact on natives in terms of benefit was extremely small, or miniscule in the words of the author who developed those estimates. Now, that could be wrong, but that study included most of the top demographers and economists in the immigration field.

Mr. VAN HOLLEN. Mr. Holzer, you mentioned the impact on consumers of lower prices. Mr. Camarota made the point that it is hard to have it both ways. It is hard to say that you can have lower prices for consumers as a result of immigrant labor without it being related to lower wages and pressure on lower wages. How would you respond to that?

Mr. HOLZER. I would respond to that by saying that within the relevant sectors we are talking about, within agriculture, within construction and within garments, immigrants do likely reduce wage costs for employers, and that is going to translate into lower prices for consumers.

The reason that not all less educated workers suffer because of that is because most of those workers end up adjusting, moving to other local areas, other sectors of the economy where their wages are not necessarily in direct competition with those in those sectors.

So the lower wages and lower costs in those sectors, which do benefit consumers, do not necessarily translate into lower wages elsewhere, because the competition can be reduced by a variety of these adjustments.

Mr. VAN HOLLEN. OK. Thank you.

Thank you, Mr. Chairman.

Mr. MCKEON. Gentleman yields back his time.

As I have sat here this morning and afternoon, I am reminded of the story of the three blind men describing an elephant, you know, the one that says it is a big wall that feels the side, the ones that grabs the leg and says it is like a tree, big trunk, and the one that grabs the tail and says like a rope. We are a large country and we have a large economy, and like you said, when you are talking about the national economy versus local economies, California is much different than Maryland; Texas probably much different than Wyoming.

And I wish all of my constituents could have heard all of the discussion here today, because there are some that see the trunk, there are some that see the wall, there are some that see the rope. They see people that they perceive as being illegal in the country that are perhaps using medical services, educational services that are costing the people in California, taxpayers, a lot of money. And some of those people over there using those services may also be paying taxes.

It is a very difficult thing. I think if we had all of our farmers here, they would say, "How do I harvest, how do I plant my crops, how do I harvest my crops if I don't have immigrant workers, because there is not a lot of demand for those jobs?"

I see it as a very complex issue that is a very important issue for me because we have people on one side saying, we just can't have people here that are here illegally. And the gentlelady that asked the question of all the different ways we describe, a lot of

that is politically correct. If you are on one side of the issue, you use the word, "undocumented;" if you are on the other side, it is "illegal." And guess if you come into the country illegally, you are also going to be undocumented, because there is no way to get legal documents if you entered the country illegally. But there is no simple answer to it, to the overall problem.

Mr. Siciliano, your testimony where you explored the concept that certain native-born workers and lower-skilled immigrants are not actually competing for the same jobs. You defined this relationship as a complementary one versus one of substitutions. For instance, if they are immigrants and they are working in the labor field or construction industry versus the native-born that are working in that same field, how does that—they are competing for the same job but I guess there are some that feel if you are here illegally, you be paid less?

Mr. SICILIANO. Well, it actually depends. I think, in fact, in the short run, I would say that labor markets are somewhat regional, so it depends on the region, it depends on the type of activity. Let's take construction, for example, and I think it is legitimate to say that there are a range of skills that a carpenter or an electrician can exhibit. And so we might describe as low skilled an apprentice-level carpenter, but even that carpenter may have an assistant who does things that are not even at the level of an apprentice-level carpenter.

And when we say that lesser-skilled immigrants don't necessarily compete head to head, we know and studies have indicated that I turns out that immigrants of the lesser skilled areas tend to compete with each other first and foremost. And in reality, there is a continuum of skill sets, even within what we broadly classify as lesser skilled. And in the construction example with whether a carpenter or electrician, you have carpenters' helpers, you have electricians' helpers, you have people who play a role which help other people with greater skills but still falling within our lesser-skilled category get their job done and get their job done quickly.

Now, the long-term trend, I mean, what happens over 5 years and 10 years? Does that person move up as they garner skills? That is the interesting question. I think that is more important in some ways. But I think there are a lot of places where people who are hardworking but lesser skilled help people who are still somewhat lesser skilled and also hardworking and they get more done together. That is what we mean when they don't compete head to head.

Mr. MCKEON. As we try to solve this problem, the way the legislature works, people will submit bills and we will get together an we will discuss them. None of us will have the expertise that you gentlemen have. I hope that as we go through this process that you will stay in touch with us so we will be able to glean from your expertise, because otherwise we end up with something that causes more problems, unintended consequences at the rend of the road, and while we are well-meaning and trying to solve problems we end up creating more problems.

So I appreciate your being here today. I appreciate your testimony and hope that you will stay with us as we go through this process.

Our committee has certain jurisdiction, other committees have other jurisdictions. Ours will be falling in the area of education and workforce laws and not so much the border control or those kind of things.

But we really appreciate your efforts for being here with us today and for your testimony, and thank you for your patience and I wish more of us had been able to stay, but that is kind of just the way it works around here.

Thank you very much.

This hearing is adjourned.

[Whereupon, at 12:56 p.m., the committee was adjourned.]

[Prepared statement of Mr. Norwood follows:]

Prepared Statement of Hon. Charlie Norwood, a Representative in Congress From the State of Georgia

I thank the Chairman for holding this very important hearing that is long overdue. American immigration policy has a profound impact on the American economy in terms of jobs, healthcare, education and our entire way of life.

But more importantly, American immigration policy directly impacts every one of our constituents, and they are crying out for reform.

Why are they crying out for reform? Take my home state of Georgia for example: Since 1992, the number of illegal aliens statewide has increased by 777%. This invasion equates to an illegal immigrant population of nearly 250,000, making the Peach State home to the 7th largest illegal immigrant population in the country.

The results of this invasion have turned my state upside down. Schools are overcrowded. Hospitals run incredible deficits. And jobs that once paid decent wages for the most un-skilled and underprivileged workers are simply not available.

Yet there are those who might explain this phenomenon away. "The ends justify the means," or "illegal immigrants take jobs that Americans don't want," we are told. Well for those who subscribe to this line of thought, I invite you to try telling that to an unemployed textile worker in Toccoa who now can't even get a job on a poultry farm.

These are the cold hard facts: Bureau of Labor Statistics (BLS) research suggests that in the construction, maintenance, food preparation and other labor-intensive industries where legal and illegal immigrant growth is most pronounced, American unemployment tends to be the highest.

These are industries that our most vulnerable American workers, like the gentleman I mentioned from Toccoa, have come to rely on over the years in order to make a living. With little education and fewer high-tech skills, these hard working folks simply do not have other opportunities.

Mr. Chairman, this Committee is working diligently to reverse these circumstances for America's most vulnerable workers. After all, Republican policies passed under your leadership are already breaking the chains of generational poverty, improving results in our nation's public schools and reforming the federal government's job training system.

Yet unless we also commit to reforming America's broken immigration policies that are negatively impacting the American economy, our efforts will ultimately come up short.

I look forward to the testimony of our distinguished witnesses on both panels, and respectfully yield back the remainder of my time.

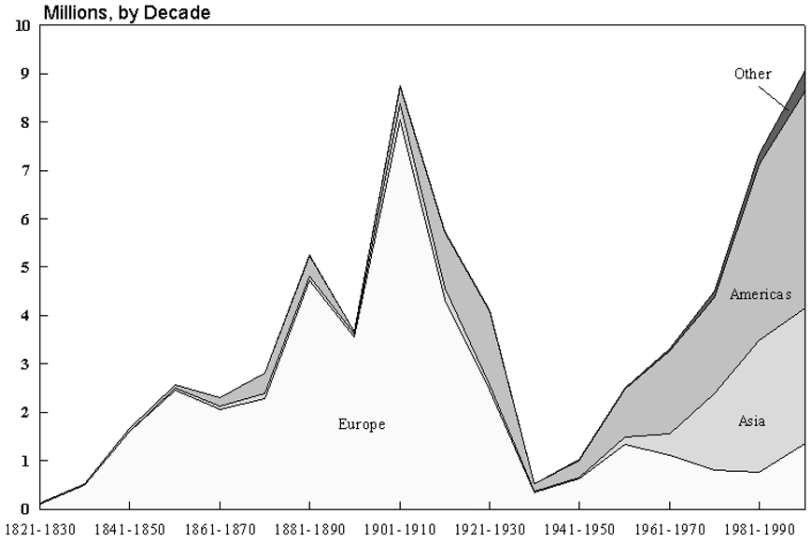
[Slides used during Mr. Holtz-Eakin's statement follow:]

The Foreign-Born Population, 1850 to 2000

Immigrants Admitted to the United States, by Major Category of Admission, 2004

Category of Admission	2004 Number (Thousands)	2004 Percent
Total	946	100
Family-Based Immigrants	620	66
Family-sponsored preferences	214	23
Immediate relatives of U.S. citizens	406	43
Employment-Based Preferences	155	16
Diversity Program	50	5
Other Categories	120	13
Refugees and asylees	71	8

Immigration to the United States, by Region of Origin, 1821 to 2000



Remittances and Other International Flows from the United States to Developing Countries, 1981 to 2003

Size and Growth of the U.S. Labor Force Age 16 and Older, by Nativity, 1994 and 2004

	Number (Millions)		Percentage Change	Average Years of Education
	1994	2004	1994 to 2004	Completed, 2004
Total	131.1	147.4	12	13.5
Native Born	118.1	126.0	7	13.7
Foreign Born	12.9	21.4	66	12.2
Mexico and Central America	4.6	8.3	80	9.4
Rest of world	8.3	13.1	58	14.0

Geographic Distribution of Native- and Foreign-Born Workers, 2004

	Percentage of the Labor Force			
	California	New York, Florida, Texas, New Jersey, Illinois	Rest of Country	Total
Total	100.0	100.0	100.0	100.0
Native Born	67.7	79.2	91.7	85.5
Foreign Born	32.3	20.8	8.3	14.5
Mexico and Central America	17.0	6.8	3.0	5.7
Rest of world	15.3	14.0	5.4	8.9

Average Weekly Earnings of Various Full-Time Workers Ages 25 to 64 as a Percentage of Earnings of Native-Born Workers with Native-Born Parents, 2004

Nativity Status	Highest Level of Education Attained			
	All Levels	8th Grade or Less	High School Diploma or GED	Bachelor's Degree
	Males			
Worker Born in Mexico or Central America	54	78	72	71
Parent from Mexico or Central America	79	95	85	85
Worker Born in Rest of World	97	91	87	87
Parent from Rest of World	114	*	107	100
	Females			
Worker Born in Mexico or Central America	59	89	81	81
Parent from Mexico or Central America	89	95	94	112
Worker Born in Rest of World	100	102	91	96
Parent from Rest of World	116	114	106	107

* = sample size too small

The Ten States with the Largest Foreign-Born Populations, 2000

	Foreign-Born Population (As a percentage of state population)
California	26.2
New York	20.4
Texas	13.9
Florida	16.7
Illinois	12.3
New Jersey	17.5
Massachusetts	12.2
Arizona	12.8
Washington	10.4
Georgia	7.1
Memorandum:	
United States	11.1

Composition and Educational Attainment of the U.S. Labor Force Age 16 and Older, by Nativity, 2004

	Number (Millions)	Percentage of Labor Force	Percentage of Foreign-Born Labor Force	Average Years of Education Completed
Total	147.4	100.0	n.a.	13.5
Native Born	126.0	85.5	n.a.	13.7
Foreign Born	21.4	14.5	100.0	12.2
Mexico and Central America	8.3	5.7	39.0	9.4
Rest of world	13.1	8.9	61.0	14.0

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