

Comprehensive Immigration Reform Hearing

April 19, 2013

Senator Lee

Questions for the Record

Questions for Doug Holtz-Eakin

1. When the 2007 immigration bill was scored, the headline unemployment rate [U-1] was 4.6%; today it is 7.6%. In June 2007, total unemployment [U-6] was 8.3%; today it is 13.8%. Unemployment among those over 25 with less than a high school education, the unemployment rate is 11.1%. Only 40.9% of this population cohort is employed.
 - With the current, wildly different employment situation, especially acute among those with a skillset similar to the average undocumented American, should the estimates of worker absorption and subsequent macroeconomic effects be seen as applicable to the current bill?

The most important impacts of immigration reform take place over the longer term and will not depend on the pace of cyclical decline in unemployment. There is no reason to believe that a market economy will be unable to respond to a shift in the labor force, or that the transformation of undocumented workers to RPI status will have an unmanageable economic impact.

2. In your testimony, you note that the 2007 bill had a cost of \$18 billion over a decade, stating that such an amount would be “swamped” by other changes and dismissing it as a “budgetary wash.” \$18 billion is no small amount. To put this in perspective, people often speak of the 11 million here without documentation. That amount totals over \$1,600 per person.
 - Do you believe the bill should be modified to make the 11 million pay for this cost through increased fees, seeing as it is a “budgetary wash”?

The budget cost of the current bill is the most relevant consideration; at present the fee structure and back-tax requirements in the bill appear to adequately address net overhead costs.

3. Mr. Holtz-Eakin, you have made a number of arguments with respect to immigration policy being economic policy. I think it is very important that we keep in mind the effect of any legislative proposal, and particularly one of this magnitude, on our economy and our deficit. And I appreciate the focus you have brought to this point. I am a strong

believer in free market principles and I agree with what I understand to be a general libertarian point you are making with respect to the potential economic good that can result from comprehensive immigration reform. I am concerned, however, with the long term effects of this legislation on our economy. You have discussed the Affordable Care Act and the manner in which you do not see it affecting spending during the next ten years, but the ACA is only one of many welfare and entitlement programs we have in this country. In addition, although it is still a few years off, we must take into account even those effects on our budget that may occur a decade from now. So my concern with the effect of this proposal on our economy is how we make it work in the long term.

- Do you believe that reforms to our entitlement and welfare programs would be necessary to make comprehensive immigration reform beneficial to the economy?

Fundamental entitlement reform is critical budgetary policy irrespective of the outcome of immigration reform. Entitlement reform will be easier in a vibrant, growing economy and immigration reform can help in this regard, but entitlement reforms remain essential.

- What are your greatest long-term concerns with respect to the effect of comprehensive immigration reform on our budget and our economy?

As noted in a recent study by the American Action Forum, in the absence of immigration the population of the United States will decline and the size of its economy will contract. Forgoing the economic growth prospects offered by effective comprehensive immigration reform would diminish our economic future and make our fiscal challenges more difficult.

4. In your testimony, you criticize cost studies that estimate large increases in spending, such as the recent publication by the Senate Budget Committee. You state that such an analysis is flawed because, in your words, “any accurate measure of the budgetary effects of a comprehensive immigration reform will include multiple budgetary inflows—including higher revenues from additional tax payers.” But it seems to me that in some respects we need to prioritize in the analysis the effects on direct spending. There are at least two reasons for this. First, given our financial situation, we must be especially careful when we are talking about additional spending. We don’t have the luxury of taking great risks with our deficit, because we have already accrued so much crushing debt. Second, it seems that we can be assured that beneficiaries will seek benefits. That is to say, estimates of direct spending seem in some respects more predictable than estimates of budgetary inflows. We know people will seek government benefits, we don’t know how much money naturalized citizens will make and how much in taxes those persons will pay.

- How would you respond to these concerns and, in particular, the need for us to be especially cautious when there is good reason that a legislative proposal may have serious effects on our national debt?

I share the concern over the federal spending problem, especially the broken mandatory spending programs. As noted above, I believe they must be reform whether immigration reform occurs or does not. Moreover, that need is sure enough to swamp any budgetary uncertainty, which exists on both the spending and the tax sides of the budget.

- What are the challenges in attempting to determine the effects of dynamic scoring on a complex legislative proposal such as the one before us?

Scoring always involves uncertainty, however the basic components of economic growth are well understood, and any major proposal that would fundamentally alter one of those components should be weighed in that context, in addition to its effects on other elements of the federal budget.

5. One of the main contentions you make in support of passing this Act has to do with the U.S.'s increasingly low birth rate. Italy has a fertility rate of 1.4. Only 14% of its population is under 15 and 21% is 65 and older. Japan is also at 1.4, with 13% under 15 and 24% elderly. By contrast, 20% of the U.S. population is under 15 and 13% is 65-plus. Comparatively it appears we are doing well. The nation added 2.3 million people from 2011 to 2012, growing 0.75% to 313.9 million. Carl Haub, demographer at the Population Reference Bureau stated "Once employment improves, one would think we would return to previous levels." The fertility rate was even lower in the 1970s, when it dipped to 1.7 — a result of inflation and more women entering the workforce. Based upon these past statistics and future projections, it does not appear that immigration is the answer to either our economic or birth decline issues.

- As the economy improves, isn't it likely that we will also see improved birth rates across the U.S. as we have in the past?

U.S. birth rates have been low for a decade, through expansion and recession; counting on a resurgence is risky. Moreover, unless the U.S. plans to end immigration entirely – a disastrous policy – it makes sense to reform the existing system to embody better economic policy.

6. In your study, you appear to argue that immigration-induced population growth by itself will have a positive indirect impact on the economy and public coffers. What past examples can you give to back this assertion up?

As I note in AAF's study, the building blocks of economic growth are not complex. Total GDP stems from the total number of workers and the average output per worker, or productivity. The pace of overall population growth – from immigration or domestic births – will raise the number of workers, and thus raise GDP. In addition, the structure of the population – by age, gender, and education – can influence the fraction of the population at work. Growth in the labor force participation rate can, in turn, raise the rate of GDP above the rate of population growth.

- You have stated that Foreign born individuals tend to have higher rates of labor force participation, translating into rapid pace growth of the labor force. Many U.S. jobs require higher levels of skill and education than strictly labor force individuals are able to offer.
- Many, if not most, of the aliens affected by this proposed legislation fall into the labor force category. If the greatest gain to the economy can be felt through the use of high skilled workers, how does this proposed legislation truly help the economy?

The legislation in question makes a number of changes to the immigration system, including elements effecting high-skilled labor. However, normalizing the status of the currently undocumented will also have positive effects to the extent many are already working, but in the underground economy at depressed wages. I would note however that in the end markets will determine value far better than arbitrary categories and that the Chief Actuary of the Social Security Administration found that combined, the legislation would raise GDP by 1.6 percent and employment by over 3 million by 2023.

- Wouldn't an influx of less educated aliens create an economic drain on the U.S. economy?

The legislation does not contemplate an "influx" of the population you describe, rather, the proposal would normalize the status of certain undocumented individuals already present in the United States. Additional reforms would reduce future illegal immigration, while reforming other elements of the immigration system. Included in these reforms would be improvements to the visa system more consistent with skills and the needs of the U.S. economy.

- With respect to the 11 to 12 million aliens that are at issue in today's hearing. Do you have any information on their poverty, welfare use, lack of health insurance,

or tax payments information that would lead you to conclude that this legislation would in fact boost the economy?

The Congressional Budget Office recently updated its estimates of selected characteristic of the immigrant population, which also includes information on the undocumented population: <http://www.cbo.gov/publication/44134>. I would refer to the answers above to address the macroeconomic implications of normalizing the status of this population in a manner consistent with S. 744.

7. Many of the assertions laid out in your study are based upon unquantifiable subjective attributes such as work ethic.

- What data are you basing these assertions on?

*Please see Endnote viii of the AAF study which provides a reference to a study prepared for the Small Business Administration that addresses this issue. Citation: Fairlie, R. (2012). *Immigrant Entrepreneurs and Small Business Owners, and their Access to Financial Capital*. U.S. Small Business Administration: Washington, D.C.*

- Do you have a model in place that would be able to measure these attributes if the bill is passed?

The economy is tracked by a host of indicators which would prove useful in measuring the economic implications of immigration reform in the years subsequent to its passage. Moreover, the existing literature on the economic implications of immigration would no doubt continue to evolve and provide additional assessment and perspective post-implementation.

8. On March 17, 2013, *The New York Times* reported: "And as a side benefit, waiting a decade would mean that the costs of the overhaul would not kick in until the second decade because illegal immigrants do not qualify for government benefits until after they earn green cards. That means the 10-year cost estimates by the Congressional Budget Office would not include the expense of those benefits."

- How meaningful are CBO projections that use a 10-year window on assessing the costs of this type of program, when many of the provisions are delayed outside the window by statute?

The Congress adopted a 10-year budget window as the norm for CBO cost estimates. However, it has regularly provided longer-term projections of the

budget outlook that, despite their considerable uncertainty, provide important information for Congress. In addition, I am encouraged that the Congressional Budget Office now provides estimates for whether legislation increases the deficit by at least \$5 billion during any one of the 4 10-year periods outside of the normal budget window. I am also encouraged that there is an associated budget enforcement mechanism to address this concern. This is a useful and appropriate approach to balancing the uncertainty attendant to long-term cost estimation and the need to control out-year costs.