



AMERICANS
for TAX REFORM

**Written Testimony of Grover Norquist
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**Before the United States Senate
Committee on the Judiciary**

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Chairman Leahy, Ranking Member Grassley, and Members of the Committee, my name is Grover Norquist, and I am President of Americans for Tax Reform (ATR). ATR is a nonprofit advocacy organization that promotes free market principles and a fiscally conservative approach to public policymaking.

Mr. Chairman, people are an asset, not a liability. America is the most immigrant-friendly country in the world, and we are the richest country in the world. This is not a coincidence. Those who would make us less immigrant-friendly would make us less successful, less prosperous, and less American.

Now, how do we evaluate the specific legislation before the Senate? The Border Security, Economic Opportunity, and Immigration Modernization Act of 2013's stated aim is to uphold America's tradition of strengthening its economy by maintaining its openness to immigrants.

Dynamic Analysis: A Conservative Consensus

The consensus conservative, free market approach to evaluating any public policy change is to do so dynamically. Dynamic scoring takes into account both the costs and benefits of any policy change. Specific to immigration, providing a tough but fair pathway to legal status for America's undocumented population while facilitating an adequate future flow of legal immigrants will increase the size and productivity of our workforce and thus lead to accelerated economic growth for all Americans.

Wall Street Journal editorial board member Jason Riley made the case for dynamic scoring in his 2008 book:

Supply siders have for decades been critical of the way federal agencies like the Congressional Budget Office and the Joint Committee on Taxation estimated, or "scored," the effects of tax cuts on revenue without figuring in their effects on the overall economy. And rightly so. Under static modeling, for instance, if a state doubles its cigarette tax, it will double its revenue from that tax. But that doesn't take into account, as a dynamic model would, the fact that the tax increase will affect behavior. Smoke smokers, for example, may quit or smoke less. The tobacco taxes they previously paid would be lost to the state, offsetting some of the

additional revenue anticipated by increasing the tax rate. Similarly, a tax cut might not result in a revenue recution if it stimulates more economic activity.¹

Riley also provides a history of conservative policy organizations driving the center-right consensus on dynamic scoring:

Along with other conservative outfits like the National Center for Policy Analysis and the Institute for Policy Innovation, [the Heritage Foundation] helped pioneer the use of dynamic analysis. Whether the issue was trade liberalization or tax policy, free-market conservatives regularly mocked economic studies that took into account only static impacts. “[No] matter how many times a ‘static’ analysis is disproved,” Heritage Foundation president Ed Feulner once wrote, “Congress keeps doing business in the same wrongheaded way.” When President Bush’s 2007 budget proposal included a plan to create a Dynamic Analysis division inside the Treasury Department to assess how tax laws affect economic activity, William Beach, Heritage’s top numbers cruncher, praised the move. “Inside the Beltway, this type of work is called ‘dynamic analysis,’” Beach wrote in *BusinessWeek*. “Outside the Beltway, this is called ‘economics.’”²

Indeed, any sound conservative evaluation of public policy changes must include an accounting of the legislation’s costs and benefits. Conservatives do not consider tax cuts statically, because of behavioral changes that result when we incentivize work and investment. That dynamic increase in economic activity that takes place when the government loosens its grip on the private sector leads to more revenue than a static projection would suggest.

A number of conservative and free market organizations and leaders have added their voices to the debate, speaking to the importance of dynamic analysis.

Recently departed Heritage Foundation President Ed Feulner put forth a convincing argument about the flaws of static scoring:

Indeed, some lawmakers are fighting a proposal that would require them to take real-world considerations into account. They prefer to keep “scoring” each bill—estimating how it will affect the economy and the amount of taxes they take in—with the “static” model used by the store owner’s friend. If, say, a 5 percent tax on something brings in \$50 million, they assume a 10 percent tax will fetch \$100 million.

Not surprisingly, this approach has caused lawmakers to come up with some wildly inaccurate assumptions over the years. Consider what happened with President Kennedy’s tax cut. Many lawmakers were sure that, with the top marginal tax rate being slashed from 91 percent to 70 percent, tax revenues would plunge. Instead, the cut spurred economic growth. Between 1961 and 1968, tax revenues rose by one-third.

¹ Riley, Jason. *Let Them In, The Case for Open Borders*. New York: Penguin. 2008.

² *Ibid.*

The same thing happened when President Reagan cut taxes in the early 1980s. Many lawmakers predicted financial ruin as the top rate plummeted from 70 percent to 28 percent. Again, they were wrong. Once the cuts were phased in, tax revenues soared. The amount of money the federal government was taking in through personal income taxes had increased 28 percent (adjusted for inflation) by 1989.

Yet no matter how many times a "static" analysis is disproved, Congress keeps doing business in the same wrong-headed way.³

Newt Gingrich and Peter Ferrara criticized the static analyses of the Congressional Budget Office, Office of Management and Budget, and Joint Committee on Taxation thusly:

The methodologies used by analysts across the federal government to score the impact of legislation still do not take into account the dynamic, pro-growth effects of policy changes. They continue to use mostly static methodologies that assume no significant changes in behavior in response to changes in incentives. The result of these antiquated scoring practices is that Congress is forced to discount any policy change that would increase economic growth or enhance efficiency in federal programs. Instead, Congress is constrained to consider legislation designed to meet a politically acceptable score from the CBO, even though experience demonstrates that the scoring will surely be erroneous -- indeed, is effectively designed to be so.⁴

Americans for Prosperity (AFP), the conservative advocacy group, argued:

CBO's current static scoring system fails to account for behavioral changes that individuals, households, and firms make in response to new economic policies. This makes tax increases look better and tax cuts look worse than they actually are...

Adjusting to dynamic scoring accounts for these (behavioral) changes and provides better cost estimates for Congress to weigh its decisions.⁵

Other free market institutions such as the Club for Growth, FreedomWorks, the Cato Institute, and the National Taxpayers Union have been broadly supportive of dynamic scoring. This is a consensus issue in the center-right policy community.

Dynamic Scoring Specific to the Immigration Debate

³ Feulner, Edwin. *Less "Static," Please*. Heritage Foundation blog. July 22, 2002.
<http://www.heritage.org/research/commentary/2002/07/less-static-please>.

⁴ Gingrich, Newt and Ferrara, Peter. *Doesn't Anyone Know the Score?* Wall Street Journal. September 26, 2005. <http://online.wsj.com/article/SB112770080908551793.html>.

⁵ Americans for Prosperity Foundation. *Inside the Congressional Budget Office: Static vs. Dynamic Budget Scoring*. November, 2011.
http://americansforprosperityfoundation.com/files/NtK_19_Static_Dynamic_Scoring.pdf.

To score legislation dynamically we need to understand its impact on the economy first. The broad issue of dynamic scoring applies specifically to immigration reform because immigrants increase both the supply and demand sides of the economy. On the supply side, immigrants work and thereby increase economic production and the productivity of Americans. Because immigrants have different skills, they are complements rather than competitors to the vast majority of Americans. On the demand side, immigrants purchase and rent goods, services, and real estate produced by other Americans, thus incentivizing production.

Immigrants and Americans, in the face of such changes, do not respond statically. Both groups change their behavior in response to incentives, and it is incumbent upon us to measure the economic effects of these behavioral changes dynamically. For instance, immigrant incomes increase over time just as incomes increase during the working life of Americans. After the legalization of immigrants during the Reagan amnesty, their incomes rose by an average 15 percent just by gaining legal status. Those immigrants today are making much more than they did then and, as a result, paying more in taxes. In response to immigration, Americans also increase their investments in machines and capital to invest in a faster growing and productive workforce. Those are just two changes but they illustrate the magnitude of dynamic changes to the economy. Since both the supply and demand sides change in relation to each other, we have to use a dynamic scoring process to accurately estimate the broad effects.

The broader economic impacts are gigantic. A 2009 study prepared for the Cato Institute by economists Peter Dixon and Maureen Rimmer employed a dynamic economic model called USAGE to estimate the effects of changes in the U.S. economy due to an immigration policy change very similar to today's Senate legislation. It found that the incomes of U.S. households would increase by \$180 billion dollars a year. Increased legal immigration will add millions of consumers, workers, renters, and others who will make our economy larger by working with Americans to produce more of the goods and services we demand.

Another similar study commissioned by Cato and written by Professor Raul Hinojosa-Ojeda of UCLA employed a similar analysis using a dynamic model called the GMig2. The study found that an additional \$1.5 trillion in GDP growth would occur ten years after immigration reform similar to the Senate's plan.⁶

As a comparison, Professor Hinojosa-Ojeda ran a simulation on the GMig2 model whereby immigration reform was instead replaced by an effective enforcement-only policy that produced the mass removal of all illegal immigrants - a policy desired by immigration restrictionists. The result of that simulation was a \$2.6 trillion decrease in estimated GDP growth over the same decade.⁷

⁶ Peter B. Dixon and Maureen T. Rimmer. *Restriction or Legalization? Measuring the Economic Benefits of Immigration Reform*. Cato Institute, Trade Policy Analysis #40, August 13, 2009. <http://www.cato.org/publications/trade-policy-analysis/restriction-or-legalization-measuring-economic-benefits-immigration-reform>.

⁷ Raúl Hinojosa-Ojeda. *The Economic Benefits of Comprehensive Immigration Reform*. Cato Journal Vol. 32, No. 1, Winter 2012. <http://www.cato.org/sites/cato.org/files/serials/files/cato->

Most recently, American Action Forum President Douglas Holtz-Eakin, former Director of the Congressional Budget Office, authored a dynamic study on the economic impact of immigration reform. While not specifically related to the legislation before us today, Holtz-Eakin's study measures the costs and benefits of a "benchmark immigration reform," concluding that significantly increasing legal immigration would boost GDP growth by 0.9 points annually.⁸

Holtz-Eakin's findings are primarily driven by immigration's impact on the size of the labor force. He writes:

The mechanics of reform and the research literature suggest that immigration reform can raise the overall pace of population growth – indeed, in the absence of immigration, low birth-rates mean that the U.S. population will actually shrink. Because foreign-born individuals tend to have higher rates of labor force participation, this translates into an even more rapid pace of growth in the labor force. At historic rates of population growth, this immediately translates into more rapid overall growth in Gross Domestic Product.⁹

Additionally, Holtz-Eakin cites the entrepreneurial vigor associated with immigrants as further evidence that more immigration will lead to higher rates of economic growth. This assertion is supplemented by the Kauffman Foundation, which found that immigrants in 2011 were twice as likely as native-born Americans to start a new business.¹⁰

Immigrants and Productivity Gains

To get a sense of how the productivity of today's undocumented workers might increase once they have earned legal status, imagine the converse. If your siblings or your children were denied the ability to have a driver's license and therefore fly on airplanes or drive themselves to and from work, how productive would they be? How would their income suffer? How many career opportunities would they be denied?

Allowing undocumented workers to move from job to job, travel easily and safely, search out and interview for different jobs in different sectors and locations would greatly increase their productivity, and they would become greater contributors to their own well-being and the wealth of our nation.

The majority of those undocumented immigrants currently here are low-skilled. Some argue that we should not be importing or legalizing this type of talent. But in reality, the U.S. economy demands an enormous number of low-skilled

[journal/2012/1/cj32n1-12.pdf](http://www.aactionforum.org/sites/default/files/Immigration%20and%20the%20Economy%20and%20Budget.pdf).

⁸ Douglas Holtz-Eakin. *Immigration Reform, Economic Growth, and the Fiscal Challenge*. April, 2013.

<http://americanactionforum.org/sites/default/files/Immigration%20and%20the%20Economy%20and%20Budget.pdf>.

⁹ *Ibid.*

¹⁰ Robert Fairlie. *Kauffman Index of Entrepreneurial Activity*. Kauffman Foundation, March 2012, page 9. http://www.kauffman.org/uploadedFiles/KIEA_2012_report.pdf.

workers. They work in construction, retail, hospitality, food preparation, agriculture, manufacturing, and other industries. But the domestic labor supply is inadequate for these types of jobs. We need immigrant labor to fill demand for low-skill jobs.

For evidence of this, see the economic consequences of Georgia's House Bill 87, passed in 2011. Similar to harsh enforcement-first measures passed recently in Alabama and Arizona, HB 87 was intended to eliminate the supply of illegal immigrant labor in the state by imposing strict penalties on undocumented immigrants and the businesses that hired them.

The problem with HB 87 is that it worked. Undocumented immigrants fled the state in droves, and left a crippled agricultural industry behind them. Labor shortages led to \$140 million in agricultural losses, with crops left unpicked and rotting in the fields.¹¹ Georgia Gov. Nathan Deal even introduced a program for unemployed ex-convicts on probation to fill these vacant agriculture jobs. According to Georgia's Agriculture Commissioner, Gary Black, many of these new workers promptly quit because the jobs were too strenuous.¹²

Increasing the supply of low-skilled immigrants doesn't only ensure that more vacant jobs are filled. It increases the overall productivity of the American economy by injecting talent that is complementary to the existing domestic labor supply. Immigrants are generally either lower-skilled or higher-skilled than most native-born workers. That means they aren't competing with Americans for the type of jobs they are qualified to do. Instead, they fill jobs that complement the existing American labor supply, raising productivity and wages across the board.

Think about this in the context of a restaurant. Immigrants, because of their low skills and lesser English speaking proficiency, work in non-communications jobs like dishwashing, cooking, bussing tables, and janitorial work. The Americans who filled these jobs in previous generations are now performing higher-paid jobs like waiting tables, hosting, and managing the restaurant. The availability of lower-skilled labor allows native-born Americans to work better jobs and earn more money.

By the same account, high-skilled immigrants are vital to America's dynamic economy. Similar to low-skilled immigrants, they rarely directly compete with native-born workers, but for different reasons. High-skilled labor is extremely entrepreneurial. They grow the economic pie by innovating and building new businesses. They directly create opportunity for Americans.

¹¹ Benjamin Powell. *The Law of Unintended Consequences: Georgia's Immigration Law Backfires*. *Forbes*. May 17, 2012. <http://www.forbes.com/sites/realspin/2012/05/17/the-law-of-unintended-consequences-georgias-immigration-law-backfires/>.

¹² Associated Press. *Crackdown on illegal immigrants left crops rotting in Georgia fields, ag chief tells US lawmakers*. October 4, 2011. http://blog.al.com/wire/2011/10/crackdown_on_illegal_immigrant.html.

Immigrants or their children founded more than 40 percent of Fortune 500 companies. Those immigrant-founded Fortune 500s employ more than 10 million people worldwide, and have combined global revenues of \$4.2 trillion.¹³

Baseless Criticism

Some people who choose to play politics with this issue have ignored dynamic analysis and instead considered only the inflated costs of reform. Errors found in pseudo-analysis by anti-immigration groups include:

- **Exaggerating public benefit costs by citing household costs, rather than individual immigrant costs.** By counting welfare costs on a household basis, critics including millions of native-born American spouses and children into their estimation. This is a misleading trick that inflates the true cost of public benefits for immigrants, and assumes native-born Americans are only public charges because of their association with their immigrant spouses or parents.
- **Portraying impossible levels of welfare use.** Putting aside the evidence that immigrants come to America to pursue economic opportunity, it is important to point out that leading criticisms of increased immigration predict levels of welfare use that are impossible under this bill. Most undocumented immigrants are barred from accepting public benefits, including Obamacare, for 13 years at the earliest. Those on a quicker path – agricultural workers and DREAMers – still must wait eight years. Yet prominent criticisms of the bill assume immediate adoption welfare benefits by those legalized.
- **Assuming immigrant wages will remain stagnant throughout their lives.** With legalization comes labor market flexibility and productivity gains, resulting in higher wages. After the 1986 Reagan amnesty, immigrant wages increased immediately after they became legal, sometimes by as much as 15 to 25 percent.¹⁴
- **Ignoring the costs of an enforcement-only approach.** Professor Raul Hinojosa-Ojeda of UCLA using the GMig2, a dynamic bilateral labor flows model, to estimate the economic effects of a successful enforcement-only policy that mass removed of all illegal immigrants - a policy desired by immigration restrictionists. The result of that simulation was a \$2.6 trillion decrease in estimated GDP growth over the same decade, decreasing tax revenues. Direct government costs of such a program are also enormous. Economist Rajeev Goyle estimated that deporting 11 million people would cost the government \$206 billion over a five year period.¹⁵ More conservatively, Immigration and Customs Enforcement (ICE) assumed that the marginal immigrant costs \$12,500 to deport which, assuming no increase in marginal costs, would cost the government approximately \$140 billion to deport 11 million unauthorized immigrants.¹⁶

¹³ The Partnership for a New American Economy. *The 'New American' Fortune 500*. June, 2011. <http://www.renewoureconomy.org/sites/all/themes/pnae/img/new-american-fortune-500-june-2011.pdf>.

¹⁴ Baker. *Effects of the 1986 Immigration Reform and Control Act on Crime*. SSRN Working Paper, 2011.

¹⁵ Goyle and Jaeger. *Depotting the Undocumented: A Cost Assessment*. July, 2005. http://www.djaeger.org/research/reports/deporting_undocumented.pdf.

¹⁶ Associated Press. *Feds Estimate Deportation Costs \$12,500 Per Person*. January 27, 2011. <http://cnsnews.com/news/article/feds-estimate-deportation-costs-12500-person>.

- **Conceding the size of the current welfare state, rather than working to reform it.** Building a wall around the welfare state is a far more effective and economically beneficial policy than building a wall around the country. It is also politically possible.

There are groups that oppose growing the American economy via more immigration because of their extreme environmental and population control views, because they have a flawed Malthusian view of the economy, and because they don't understand free markets. Their failed arguments against immigration are also arguments against having children. These groups view people not as assets, but as liabilities. This is a fatally flawed argument, and completely inconsistent with conservative principles.

Some argue that the fiscal burden of America's entitlement programs make more immigration cost prohibitive. That is a false choice. That our entitlement systems are broken is not an argument for less immigration; it is an argument to fix our entitlement systems.

The legislation before us today puts at least 13 years between legal status and access to public benefits for most undocumented immigrants, mitigating the negative fiscal impacts of our bloated entitlement programs. Those who insist or imagine that this bill would impose trillions of dollars in new entitlement costs have not read the legislation, nor do they understand the current eligibility requirements.

Furthermore, immigrants come at the beginning of their working lives, which means they will have years to pay taxes and contribute to the economy before being eligible for entitlements. The American Community Survey estimates that the average age of immigrants who have come since the year 2000 is 31 while the average native-born American is 36 years old.¹⁷ Immigrants typically arrive in their mid-20s after their home countries pay for their education so they can begin to work and pay taxes in the U.S. immediately. By coming at such a young working age the government does not have to pay for their education but they could work around 40 years before being eligible for entitlements if they decide to stay.

Also, many low-skilled immigrants work for years in the U.S. before returning home with their savings as part of a phenomenon called circular migration. Forcing them to work in the illegal market means they will stay here longer than they otherwise would because if they did leave the U.S., there would be no guarantee they could come back later to make money if they had to. Allowing them to come legally or to legalize the ones here would reignite circular migration, allowing immigrants to plan on coming here for a few years to work and pay taxes and then returning home with their savings. Princeton Sociologist Doug Massey has observed that 20 percent to 30 percent of Mexican immigrants from 1965 to 1986 followed that pattern.¹⁸

¹⁷ American Community Survey, 2011, Chart S0502, Selected Characteristics of the Foreign-Born Population by Period of Entry into the United States and S0501 Selected Characteristics of the Native and Foreign-Born Populations, 1-year estimates.

¹⁸ Douglas S. Massey, Jorge Durand, and Nolan J. Malone, *Beyond Smoke and Mirrors: Mexican*

For almost all means-tested federal welfare programs, immigrants are substantially restricted access until they have had a green card for at least five years. Programs they are restricted from include: Medicaid, Supplemental Nutrition Assistance Program, Temporary Assistance for Needy Families, and Supplemental Security Income. The current legislation would construct even larger barriers to welfare, with a 10-year waiting period for most newly legalized immigrants to receive a green card, and then another 3 years until access to means-tested public benefits. That is a high wall around the welfare state.

The Shining City on a Hill

Mr. Chairman, it is my belief that a position in favor of more legal immigration and a fair and humane path to citizenship for those undocumented immigrants already here is wholly consistent with the ideals of the center-right movement I have worked my entire life to help build. I believe that free markets lead to economic growth and prosperity for all. This includes free and flexible labor markets, which will benefit not only those who wish to come here to pursue the American Dream, but also those of us blessed enough to have been born in the United States of America.

I conclude with an excerpt from President Ronald Reagan's farewell address to the nation, in January of 1989.

I've spoken of the shining city all my political life, but I don't know if I ever quite communicated what I saw when I said it. But in my mind it was a tall, proud city built on rocks stronger than oceans, wind-swept, God-blessed, and teeming with people of all kinds living in harmony and peace; a city with free ports that hummed with commerce and creativity. And if there had to be city walls, the walls had doors and the doors were open to anyone with the will and the heart to get here.