



Testimony

Legalizing Essential Workers and Immigration Reform

DOUGLAS HOLTZ-EAKIN | MAY 12, 2021

Testimony to the U.S. Senate Committee on the Judiciary Subcommittee on Immigration, Citizenship, and Border Safety

**The views expressed here are my own and do not represent the position of the American Action Forum. I thank Whitney Appel for tremendous assistance in preparing this testimony. All remaining errors are my own.*

Introduction

Chairman Padilla, Ranking Member Cornyn and members of the Subcommittee, I am pleased to have the opportunity to appear today. In this testimony, I wish to make three basic points:

- Legalization of a variety of categories of undocumented immigrants, such as the proposed Citizenship for Essential Workers Act - is an important aspect of federal immigration reform, but such reforms should also include securing borders and reforming the visa system to contribute to stronger economic growth;
- The economic impact and legal merit of legalizing essential workers does not appear to be large, and may well produce undesirable migration incentives; and
- The legislation's definition of "essential" workers is overly broad, classifying the vast majority of employment as essential.

I will pursue each in additional detail.

The Potential of Immigration Reform

Each day seemingly brings another reminder of the need for better immigration policies.

Millions of illegal immigrants live in the shadows, surges of migrants stress the capacities at the southern border, and the steady decline of fertility among the native-born foreshadows a demographic bust and economic stagnation.

This hearing focuses the Citizenship for Essential Workers Act, that addresses the first of these three issues, but it offers only a partial solution to the challenge of illegal immigrants. Notably, the bill excludes the interior enforcement and border security provisions that were staples of past efforts to legalize undocumented populations of this size, and without such provisions, it is unlikely that the bill will meaningfully resolve the issue of people living in the shadows.

In addition, it does not address the border, and, indeed, it may introduce incentives for increased illegal crossings. And while legalization of essential workers seemingly focuses on economic contribution, this legislation is poorly targeted and silent on the larger economic issues.

The Economic Impact of Potential Reforms

Visa reform is among the most potent pro-growth economic reforms. At present, less than 10 percent of visas are granted based on economic criteria, even though the consensus of the research literature is that immigrants fuel growth. In the short term, immigrants increase consumption and thus demand for goods and services. Over longer periods, production must increase, which leads to job creation for both native- and foreign-born workers.

Immigrants also contribute to the economy by working. On average, foreign-born workers have higher labor-market participation rates (65.2 percent) than native-born workers (62.8 percent).[1] They are also disproportionately more likely to start their own businesses; nearly 20 percent of self-employed individuals in the United States are foreign-born, even though immigrants are 14 percent of the U.S. population.[2] Furthermore, first- or second-generation immigrants have founded over 40 percent of Fortune 500 companies, and over 50 percent of Fortune 500 technology companies.[3]

In addition, immigrant workers spur productivity gains in the economy. A study from the National Bureau of Economic Research found that immigrants have different skill sets and preferences than U.S.-born workers, leading them to specialize in different types of jobs.[4] It finds no evidence that foreign-born workers crowd out employment for natives. Instead, “immigrants gravitate toward manually-intensive jobs, promoting competition and pushing natives to perform communication-intensive tasks more efficiently.” This boost to productivity translates to wage gains for all: For every 1 percent increase in employment

per state, there is a 0.5 percent increase in income per worker.

Other studies have examined the impact of immigrant workers on overall economic growth. Researchers at Citi GPS found that U.S. economic growth between 1990 and 2016 would have been approximately 15 percentage points lower in the absence of immigration because immigrants improve both the quantity and quality of labor.[5] They also found that increases in skilled migration to the United States are positively associated with increases in both investment and capital per worker, and that immigration has positive spillover effects for the native population. Specifically, for every percentage point increase in the share of immigrants in the population aged 11-64, there is a 0.3 percentage point increase in the probability that native-born individuals will complete 12 years of schooling. They note, however, that the growth effects of immigration are usually a function of migrant age and especially concentrated among working-age immigrants. Therefore, the positive impact of working-age immigrants should be expected to grow as the U.S. population ages.

Especially now, however, immigration is more than a tool for economic growth: It is an instrument to prevent economic decline. Without immigration, an aging population coupled with low birth rates would cause the U.S. population, and therefore the U.S. labor force, to shrink. Birth rates in the United States have been below the replacement rate, the rate at which a generation can exactly replace itself, since 1971. Moreover, the fertility rate in the United States has been decreasing since 2007.[6]

The contribution of immigration to faster labor force growth has a feedback effect on productivity. Research suggests that innovation is at least in part embodied into the quality of consumer and, especially, capital goods.[7] To the extent this is true, productivity will be higher as the opportunities for this embodiment to take place are greater.[8] In particular, at higher rates of overall gross domestic product (GDP) growth stimulated by more rapid labor supply growth, there will be greater replacement of existing capital goods and investment in new capital goods, leading to higher productivity growth. As much as 20 percent of productivity growth may be accounted for by this effect.[9]

These virtuous impacts can be enhanced by reforming the visa-granting criteria to reflect the potential contribution to the larger economy.[10] To close the circle, more rapid overall population growth would generate more rapid GDP growth, which would in turn raise productivity growth. The latter raises GDP per capita, or the standard of living.

Legalization of the undocumented can also improve economic performance. Once freed to move throughout the labor market, the newly documented will be able to seek a better match to his or her skills, raising overall productivity (and permitting better pay for the workers). Notice, ironically, that in this instance the legalization of “essential” workers may

create the opportunity for them to exit their current job for a more lucrative occupation.

Legalization of “Essential” Workers

The proposed legislation defines a class of workers as “essential” and would adjust their legal status and provide a path to citizenship. Table 1 summarizes the classification into essential and non-essential workers. It quickly becomes clear that the notion of essential is exceedingly broad. Indeed, the industries, occupations, and sectors encompass 130.2 million essential workers, with the remaining 30.5 million “non-essential.” Put differently, 81 percent of the labor force is essential workers.

This exceedingly broad definition implies that about 66 percent of the undocumented immigrant labor force is made up of essential workers. Far from being a rifle shot of legalization, the bill represents a broad legalization effort.

The final aspect to note is that a preferential treatment of essential workers is a strong incentive for future illegal border crossings to take jobs in these designated industries and occupations.

Table 1

Classification of Workers under the Citizenship for Essential Workers Act

Essential Workers Defined in Bill	Examples of Non-Essential Workers
------------------------------------------	------------------------------------------

<p>A. Health care</p> <p>B. Emergency response</p> <p>C. Sanitation</p> <p>D. Restaurant ownership, food preparation, vending, catering, food packaging, food services, or delivery</p> <p>E. Hotel or retail</p> <p>F. Fish, poultry, and meat processing work</p> <p>G. Agricultural work including labor that is seasonal in nature</p> <p>H. Commercial and residential landscaping</p> <p>I. Commercial or residential construction or renovation</p> <p>J. Housing, residential, and commercial construction related activities or public works construction</p> <p>K. Domestic work in private households, including child care, home care, or house cleaning.</p> <p>L. Natural disaster recovery, disaster reconstruction, and related construction</p> <p>M. Home and community-based work</p> <p>N. Family care</p> <p>O. Manufacturing</p> <p>P. Warehousing</p> <p>Q. Transportation or logistics</p> <p>R. Janitorial</p> <p>S. Laundromat or dry-cleaning operators</p> <p>T. Critical Infrastructure</p> <p>U. Any other work that a State or local government considers to be essential during the emergency</p>	<ul style="list-style-type: none"> · Bars and night clubs · Gyms and fitness centers/health clubs · Personal care operations such as hair salons and barber shops, spas, massage establishments, and nails salons · Pet care such as pet and animal groomers · Entertainment industry such as museums, theatres, theme parks, concert halls, and touring services · Teachers and professors
<p>Total = 5.2 million undocumented immigrants</p>	<ul style="list-style-type: none"> · Total = 2.6 million undocumented immigrants

Sources

- [1] “Foreign-Born Workers: Labor Force Characteristics—2017,” *U.S. Department of Labor*, 2018.
- [2] Wilmoth, Daniel “The Arrival of the Immigrant Entrepreneur,” *U.S. Small Business Administration*, 2016. Radford, Jynnah and Abby Budiman “Facts on U.S. Immigrants, 2016,” *Pew Research Center*, 2018.
- [3] “Immigration Founders of the Fortune 500,” *Center for American Entrepreneurship*, 2018
- [4] Peri, Giovanni “The Effect of Immigration on Productivity: Evidence from U.S. States,” *The National Bureau of Economic Research*, 2009.
- [5] Goldin, Ian, Andrew Pitt, Benjamin Nabarro, and Kathleen Boyle “Migration and the Economy: Economic Realities, Social Impacts & Political Choices,” *Oxford Martin School*, 2018.
- [6] “Fertility Rate, Total for the United States,” *Federal Reserve Bank of St. Louis*, 2018.
- [7] Wilson, Daniel “ETC (embodied technological change), etc.,” *Federal Reserve Bank of San Francisco*, 2002.
- [8] Hulten, Charles R. “Growth Accounting When Technical Change is Embodied in Capital,” *National Bureau of Economic Research*, 1992.
- [9] Laitner, John and Dmitriy Stolyarov “Aggregate Returns to Scale and Embodied Technical Change: Theory and Measurement Using Stock Market Data,” *Carnegie-Rochester*, 2003.
- [10] <https://www.americanactionforum.org/series/building-a-pro-growth-legal-immigration-system/>