



**Testimony on the Future of
Undocumented Immigrant Students**

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Senior Fellow, Hudson Institute**

**Testimony before the House Judiciary
Committee's Subcommittee on Immigration,
Citizenship, Refugees, Border Security
and International Law**

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Madam Chairman, members of the Committee, I am honored to be invited to testify before your Subcommittee today on the subject of the future of undocumented immigrant students.

Currently I am a senior fellow at the Hudson Institute. From February 2003 until April 2005 I was chief economist at the U.S. Department of Labor. From 2001 until 2003 I served at the Council of Economic Advisers as chief of staff and special adviser. Previously, I was a resident fellow at the American Enterprise Institute. I have served as Deputy Executive Secretary of the Domestic Policy Council under President George H.W. Bush.

The Problems With Our Current Immigration System

We often hear that our immigration system is broken, and I'd like to illustrate this with an example. Harlem resident Dan-el Padilla is a brilliant classicist who came from the Dominican Republic at the age of 4 and who was second in his class at Princeton in 2006. Mr. Padilla could not get legal status. His mother, a housecleaner, filed immigration papers with a lawyer, according to

newspaper reports, but never heard anything. His brother is a U.S. citizen by birth.

One would think that Mr. Padilla is the kind of person who America would welcome with open arms. He speaks perfect English, is completely assimilated, has a degree from one of our top universities, and loves America. He broke no laws by here.

Mr. Padilla was awarded a two-year scholarship to Oxford University and left the country last fall knowing that he might not be able to return and see his family. Last month he received an H-1B visa, good for a year, from Princeton University to work part-time with Professor Harriet Flower, allowing him to travel to America.

No doubt Mr. Padilla is glad to have his one-year visa. But why cannot such talent be rewarded with a green card? Do we really want him to pursue his career in the U.K. rather than at an American institution?

Similarly, many undocumented children such as Mr. Padilla do not have the right papers due to missed deadlines and bureaucratic error. Nevertheless, their presence in America would benefit us because they are hard-working and talented, and produce streams of income taxes and Social Security payments to bolster our fiscal position.

One indication of the potential benefits of undocumented immigrant children is to look at how well their peers - the legal immigrant children - do as they grow up. Many of these young immigrants become high-achieving

students, then outstanding workers and entrepreneurs. Many of the top students at merit-based high schools such as Stuyvesant High School in New York are children of immigrants. The undocumented immigrant children might do just as well, if not better, given the especially difficult circumstances that they had to overcome.

Advantages of the DREAM Act

The Development, Relief, and Education for Alien Minors Act, known as the DREAM Act, seeks to solve the problem of undocumented children. It passed the Senate as part of comprehensive immigration reform in 2006, sponsored by Richard Durbin (D-IL), Chuck Hagel (R-NE), and Richard Lugar (R-IN), and will shortly be reintroduced. Its companion House bill is sponsored by Lincoln Diaz-Balart (R-FL), Howard Berman (D-CA), and Lucille Roybal-Allard (D-CA).

The bill seeks to regularize the status of young people ages 18 to 24 who came to the United States before the age of 16; who have been in the country for 5 years or longer; and who have a high school diploma or GED. According to the Migration Policy Institute,¹ 360,000 young people fit these criteria, and about 715,000 other young people ages 5 to 17 could become eligible in the future. The total of 1,075,000 potential workers represents 0.7%, less than 1 percent, of our

¹ Jeanne Batalova and Michael Fix, "New Estimates of Unauthorized Youth Eligible for Legal Status under the DREAM Act," *Immigration Background* (October 2006, No. 1), Migration Policy Institute.

labor force. Even if this number were to double or triple it would only be a small fraction of our workforce.

Even though these undocumented young people are a small group, they have the potential to make an important contribution to our economy. If their status is regularized, and they are placed on a path to becoming U.S. citizens, they will be able to get a college education and a well-paying job.

The DREAM Act would vastly increase educational attainment regardless of the in-state tuition provisions. It would cause a much higher percentage of undocumented immigrant children to finish high school. Right now, according to the Migration Policy Institute piece, only 40 percent of undocumented Hispanic males do so. But if finishing high school is a ticket to legal status and increased earnings, presumably that number would rise.

Further, the DREAM Act would cause a much higher percentage of undocumented immigrant high school graduates to go to college. Currently, fewer than 15 percent of undocumented high school graduates between 18 and 24 are in college. Since the DREAM Act conditions legal status on community college graduation, completion of 2 years towards a 4-year degree, or 2 years service in the military, the number and percentage of college attendees would likely increase.

The DREAM Act would allow students who graduate from college to use their degrees in the fields that their education prepares them for. This makes the educational investment worth it both for the students and for the rest of us. It

will help us as well as them, because we can have more productive citizens who will fill needed job openings and who will pay taxes. And the more young educated workers in our economy, the better would be the outlook for our Medicare and Social Security programs.

The United States needs these young workers who are presently prevented from working through no fault of their own. Immigration increases wages of native-born Americans. Our global competitiveness is enhanced by attracting bright young people such Mr. Padilla, as well as the ones we have heard from today.

We live in an open, global economy, and we continually compete against other countries. We want firms to locate and expand in the United States, creating jobs here rather than going offshore. In order to do that, we want to keep the smartest entrepreneurs and workers here.

The United States Needs More Workers

Sometimes we hear that our economy cannot handle more immigrants. But economic facts do not support this. In 2007, the United States leads the industrialized world in job creation, and our unemployment rate is among the lowest in the industrialized world. In contrast, unemployment rates in most other countries are far higher. In March 2007, the latest month for which comparable data are available, Americans had an unemployment rate of 4.4 percent, while unemployment rates in the Eurozone were 7.2 percent; in France,

8.7 percent; in Germany, 7.0 percent; in Spain, 8.3 percent; and in Canada, 6.1 percent. Only Japan had a lower rate than the United States, and its economy is characterized by a slower rate of GDP growth.

Because our job creation is so strong, employers are complaining about a shortage of jobs. Steve Berchem of the American Staffing Association, which represents staffing firms such as Manpower, Inc, reports that his companies are having difficulty recruiting enough skilled workers. According to Mr. Berchem, “Our members are saying that they have more job orders than qualified candidates to fill them, especially for skilled and professional positions. Demand has increased for recruiting and permanent placement services because our members’ clients are having difficulty filling positions due to lack of available talent. The U.S. staffing industry needs a larger labor supply to meet growing demand.”

Microsoft Chairman Bill Gates also reported a shortage of workers. Testifying on February 7, 2007 before the Senate Committee on Health, Education, Labor, and Pensions, he said that “America’s need for highly skilled workers has never been greater,” and called for an increase in the number of permanent residents, skipping the bureaucratic H1-B visa process altogether. Mr. Gates stated that “Barring high skilled immigrants from entry to the U.S., and forcing the ones that are here to leave because they cannot obtain a visa, ultimately forces U.S. employers to shift development work and other critical

projects offshore...If we can retain these research projects in the United States, by contrast, we can stimulate domestic job and economic growth.”

The students we heard from this morning, Martine Mwanj Kalaw and Marie Nazareth Gonzales, are the types of students to whom Mr. Gates is referring.

As well as needing workers now, we need future workers to keep our Social Security and Medicare funds in balance. According to the Summary of the 2007 Annual Social Security and Medicare Trust Fund Reports:²

“The financial condition of the Social Security and Medicare programs remains problematic; we believe their currently projected long run growth rates are not sustainable under current financing arrangements. Social Security's current annual surpluses of tax income over expenditures will soon begin to decline and then turn into rapidly growing deficits as the baby boom generation retires. Medicare's financial status is even worse.”

The more young talented workers in our economy, the better will be the outlook for our Medicare and Social Security programs.

Many scholars, such as Nicholas Eberstadt of the American Enterprise Institute and Nobel Prize-winning economist Gary Becker of the University of Chicago, have documented the detrimental effect on developed economies of the decline in birth rates. Fewer workers are forced to look after more retired workers, leading to tax increases and economic stagnation. Immigration

² John L. Palmer and Thomas R. Saving, “A Summary of the 2007 Annual Reports: A Message to the Public,” Social Security and Medicare Boards of Trustees, Social Security Online, <http://www.ssa.gov/OACT/TRSUM/trsummary.html>, Accessed May 16, 2007.

presents a tremendous potential benefit to increase the number of future taxpayers.

The widely-respected Council on Competitiveness has called on the United States to increase its supply of skilled workers. The Council's National Innovation Initiative identified talent as the nation's key innovation asset and specifically highlighted the need to continue to attract the best and brightest from around the world.³ The Council's recent Competitiveness Index describes a broad range of trends that are intensifying our need for high skilled immigrants – from the aging of the American population, to the declining number of Americans receiving advanced degrees in science and engineering, to the incredible contributions of immigrant entrepreneurs to our economy.⁴

Positive Effects of Immigrants on Wages of Native-Born Workers

Some, such as Harvard's George Borjas, think that we should keep skilled immigrants out because they lower wages of native-born workers. But economic research shows the opposite. Immigration has widespread helpful effects on the economy and may cause wages to rise, because immigrant labor does not substitute for native labor, but complements it. Immigrants buy goods and services, increasing aggregate demand in the economy and creating jobs.

³ Council on Competitiveness, "Innovate America: Thriving in a World of Challenge and Change," 2005.

⁴ Council on Competitiveness, "Competitiveness Index: Where America Stands," November 2006.

Professors Gianmarco Ottaviano of the University of Bologna and Giovanni Peri of the University of California, Davis,⁵ showed that immigration causes native-born American wages to increase. According to a new study⁶ released in March 2007, immigrants raised the wages of most native-born workers in California, a high-immigrant state, by 4% over 14 years, with no change for low-skill workers and a 7% change for high skill workers.

Other economists have also found little negative effect on wages. Senior Economist Pia Orrenius of the Federal Reserve Bank of Dallas⁷ finds a slight increase in wages for professionals and a slight decline for manual workers from immigration of less than 1%. Professor David Card of the University of California, Berkeley,⁸ finds a decrease in wages of no more than 3% among low-skill workers in high immigrant cities such as Miami and Los Angeles, and smaller effects in other cities and occupational groups.

Professor George Borjas of Harvard University⁹ finds the most significant effect of immigration on wages. Yet even he concluded in a 2005 study that immigrants actually raised average wages of Americans by 0.1% and only

⁵ Gianmarco I.P. Ottaviano and Giovanni Peri, "Rethinking the Effects of Immigration on Wages," National Bureau of Economic Research Working Paper No. 12497, August 2006.

⁶ Giovanni Peri, "Immigrants' Complementarities and Native Wages: Evidence from California," National Bureau of Economic Research Working Paper No. 12956, March 2007.

⁷ Pia M. Orrenius and Madeline Zavodny, "Does Immigration Affect Wages? A Look at Occupation-Level Evidence," IZA Discussion Papers 2481 (December 2006), Institute for Study of Labor (IZA).

⁸ David Card, "Immigrant Inflows, Native Outflows, and the Local Market Impacts of Higher immigration," *Journal of Labor Economics* 19 (January 2001, No. 1), pp. 22-64.

⁹ George J. Borjas and Lawrence F. Katz, "The Evolution of the Mexican-Born Workforce in the United States," National Bureau of Economic Research Working Paper No. 11281, April 2005.

lowered the wages of the low-skilled, those without a high school diploma, by 5%. This means that America has a net gain from immigrants, although smaller than other studies. Mr. Borjas gets his results by assuming that immigrants and native-born Americans are perfect substitutes, and that physical capital is fixed and doesn't vary with additional immigration. Mr. Borjas measures immigration's effect on wages assuming that no other changes take place in the economy, while Mr. Ottaviano and Mr. Peri measure wages after labor and capital respond.

However, Mr. Borjas's assumptions obviously don't match what goes on in the United States. A casual look at Silicon Valley, where immigrants head up a disproportionate number of high-tech startups, shows that immigrants fill specific niches. Not only do immigrants pursue certain fields and occupations, but capital flows into Silicon Valley to support their efforts.

In conclusion, passing the DREAM Act and granting young people the right to stay in the United States is a win-win situation. There are no reasonable arguments against it. In fact, America would benefit if every foreigner who graduated from college had a green card stapled to his diploma.

As Congress winds down its lengthy negotiations over immigration reform, it should keep one question in mind: why send the Martine Kalaws and the Tam Trans and the Marie Gonzalezes of the world back to their home countries to compete against us?

Thank you for giving me the opportunity to appear before you today. I would be glad to answer any questions.