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Focus:
Economics and the Immigration Reform Debate

Panelists:

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Ben Johnson, Immigration Policy Center

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Dan Siciliano, Stanford Law School

TAMAR JACOBY: That you so much. Welcome, everyone. I'm Tamar Jacoby, Senior Fellow of the Manhattan Institute. Welcome to this press conference, co-sponsored by the Manhattan Institute and the Immigration Policy Center.

As you all know, this is a press conference where we're going to center on the economic issues in the comprehensive immigration reform debate. I'm going to speak for a minute or two to set up the situation, and then I'm going to pass you to our roster of wonderful economists. So just the political situation, even as we speak, I would say the moment of truth, as we have this call, the Senate may be deciding whether or not to go for a compromise that permits a bill to get passed out of the Senate. But meanwhile, in the media, even as that debate has been taking place in the Senate, the focus of the debate about immigration has shifted significant parts away from what's exactly happening in the Senate, what the bill should be, to larger questions of, do we really need these workers, and are they good for the economy.

Some of us would argue that the market is answering that question; that supply and demand is answering whether or not we need them, and that the market is at a kind of equilibrium. What the Fed is really thinking about doing is not adding any new people; it's really taking the people who are already coming illegally and shifting them into the legal column, giving them a legal way to come, and make sure that they use legal channels rather than coming illegally, and that the market equilibrium will remain much as it is. Nevertheless, the debate in the public, and what the public needs and deserves answers to is, are these workers good for the U.S. economy? So that's what we're here to talk about today.

I myself am a layperson and a former journalist. I understand the economic case in terms of two simple points; one set of numbers and one real life story, and I'm going to give you that set of numbers and that one real life story, but then I'm going to pass it to the people who can really make the case. The set of numbers is that in 1960, half of all American men dropped out of high school and went into the unskilled labor force. Today, not even 50 years later, less than 10 percent of American men drop out of high school and go into the unskilled labor force, but we still need unskilled—we still have lots of unskilled jobs, and need unskilled workers, and those are the jobs that foreigners are largely coming to fill. That's my set of numbers.

My real life story, and when you hear it once—you hear it the first time, and then if you're in this field, you start to hear it again and again from employers in all kinds of businesses, but the first time I heard it is still the story that has impressed itself in my memory the best. A man who owns a crab picking company on the eastern shore of Maryland, who came to testify in the Senate, maybe a year or so ago now, and talked about his company, and tells the Senators about how he was a family owned business, had been in business in this town for a hundred years employed about 300 people; 200 of them, the people who pick the crab out of the shell, and about 100 other managers, accountants, people who package the crabs, that sort of job. Today, you can't find Anglos to pick the crab out of the shells anymore, and he brings in Mexicans on a guest worker program to do it. But if he didn't have those Mexicans, his company would close, and the hundred Americans, or Anglos, or native born, managers, accountants, packagers, would be out of work, so the immigrants allow him to keep his company open, and keep Americans employed.

Meanwhile, if he wasn't producing his crabs, the restaurants in town would go out of business, and then the tourists would stop coming, and then the gas station that supplies the gas to the tourists would go out of business, and then the insurance agent who supplies the gas station and the restaurant and all the other business in town would soon go out of business. These 200 Mexican workers are the workers that are allowing his company to stay in business, and indeed grow, and that that company is the anchor of a much larger regional economy. To me, the guy told it beautifully, I couldn't argue with it, and when you're in this line of work, you start to hear it again and again by companies in all different kinds of businesses, so that's my layperson journalist sense of the economic case.

Now, as I say, I'm going to pass it over to people who can really make the case with real facts, speakers, serious arguments, starting with Ben Johnson, and I'll introduce them each as they are about to speak. Ben Johnson, the Director of the Immigration Policy Center.

BEN JOHNSON: Thank you, Tamar. I want to start—my job here, I think is to talk about what's driving some of the demand for foreign labor, and I want to start with what I think is sort of a recurring theme in the congressional debate that we've been hearing on immigration, and that is that immigrant labor is attractive to employers because it's cheaper. But the reality is that there's really little evidence that immigrants, in fact, work for less money. Immigrants clearly make a lot less money than natives, but they mainly make a lot less money because they're a lot less educated on average. It's their educational attainment and job skills that are the main impediment in the labor market, not that they're foreign born, so that begs the question, if it isn't wages, what is it? And I think a much stronger explanation for the demand for immigrant labor is founded from the demographic information that Tamar alluded to, and as well as some economic factors that are at play here, so I want to spend a little time on each of those, and the first, I think, is the demographics.

By now, it's very well known that our labor force is getting older. The aging of the baby boomer generation has been widely reported in the media, and academic circles, so I don't think it makes much sense to spend a lot of time on that; suffice it to say that projections from the Bureau of Labor statistics estimate that between 2002 and 2012, the number of workers aged 55 to 64 is going to increase by 51 percent, and at the same time, during that same period of time, the number of workers aged 35 to 44 is going to decline by about 7 percent, so again, there's no question that our work force is getting older.

What has been less widely reported is the fact that our labor force is also getting better educated, and that's something that Tamar alluded to in her example, and I think she's right. The evidence of this trend and its relationship to the immigration debate is really profound if you look back to the 1960s, and I think that's an interesting point in time to start with, because it's where the foundations of the current immigration system were laid. In the '65 Act, and in the 1960s, we had almost no immigrants in our labor force, and that's because 40 percent of the U. S. workforce didn't have a high school diploma, and were in fact engaged in the labor market that you see a lot of immigrants, particularly a lot of undocumented immigrants engaged in.

And again, today, depending on how you slice the numbers, maybe 12 percent, a little less than 12 percent of the overall workforce, if you look at those workers age 25 to 64, the

percentage that are most likely to not be able to get back into the high school education system, the percentage that don't have a high school diploma is lower than that, about 7 percent.

But the point here is, I think that that's very important to educational progress, and we ought to be spending a lot more time talking about ways to provide that remaining 12 percent or that remaining 7 percent or whatever the number is, with the training and education that we all know they're going to need to be competitive in the labor markets of tomorrow. We might all want to slow the aging process down, but I don't think anybody really wants to slow that kind of educational progress that we've been seeing, but the undeniable result of that educational progress is that we have fewer and fewer native born workers who are competing for jobs that require very little formal education. I think that's the comment I hear from folks that are opposed to immigration, and legislators who express concern about it, that we get a large percentage of immigrants, particularly undocumented immigrants that are uneducated, or we are importing poverty, but the reality is that our demographic trends are demanding a certain type of worker. We're getting older and better educated, and immigrants are primarily younger and less educated.

Now, the question of whether or not those workers are living in poverty or not seems to me to be a different question altogether. It's much more a question of international competition, the affordability of health care, some of the things I think Dan Siciliano might cover here, but from an immigration perspective, I don't think that anybody should be surprised that we are attracting a workforce that is primarily younger and primarily lesser educated, because those are what we are not.

Of course, the other reality—we don't just attract less skilled workers; we also attract very high skilled workers, and in fact, the raw numbers are smaller, but the percentage increase of high skilled foreign workers is actually higher than low skilled workers coming into the work force, and that's because we're getting better educated, but we're not quite highly educated as a workforce, so we do attract a lot of high skilled immigrants. There again, I think that's a product of the fact that our demand flows from the demographic realities that we are in today.

Now, the other factor in this, I think, is this question of, well, why can't we simply get by with fewer workers? And on this point, I think the most common argument is that we just improve labor participation rates, or increase productivity, we really wouldn't need more workers, but if you look at the trends in labor force participation rates and productivity growth rates, this is a much more difficult proposition. In fact, looking at productivity rates, we really have been experiencing a huge productivity boom. Some people call it a productivity miracle; average historic growth rates in productivity are around 2.3, but between 2000 and 2004, it was like, 4 percent, 3.7 percent, but it's very unlikely we're going to be able to sustain that for the long term. In fact, folks like Alan Greenspan have said that this remarkable acceleration in productivity is unlikely to be maintained in an economy that has reached the cutting edge of technology.

So there's evidence that the productivity growth rate is already slowing, returning back to the historical average, so there's just the proposition that we're going to get more through

increased productivity, I think is a significant challenge that's unlikely to be met in the current scenario, and the same, I think, is true with labor force participation rates.

That's the measure of what portion of the population aged 16 and older is either employed or looking for work, and if you grow your labor force participation rates, then the labor force will expand even without a larger population, but like the productivity rates, the labor force participation rates are also flattening. That's primarily because from 1950 to 2000, most of the increases in labor force participation rates were fueled by the entry of married women into the labor force. Today, though, we're at 60 percent of women 16 and older are in the labor force, and there's little expectation that that kind of increase in labor force participation rates is going to grow significantly. The BLF expects you'll see some slight increases through 2012, but there's no expectation that labor force participation rates are really going to grow significantly. We're already higher than most developed countries right now, with labor participation about 65.5 percent. That's projected to remain flat, so the long and the short of what I'm here to say is that economic growth in our economy is almost certainly going to translate into a need for a larger work force.

Given the fact that our labor force is getting older and better educated, it shouldn't come as a surprise to anybody that those jobs that have always been done by younger and less educated workers are now going to be filled by workers from outside of the domestic labor market. I think the real question is, are we going to create an immigration system that's responsive to that and allows that labor market niches to be filled legally rather than illegally, so I think I would leave it there, Tamar.

TAMAR JACOBY: Thank you, Ben. That was terrific. We're next going to go to Dan Siciliano, who's the Executive Director of the Program in Law, Economics, and Business at Stanford Law School. Dan, the floor is yours.

DAN SICILIANO: Great. I'm going to keep it pretty short, and compliment some of what Ben stated, and focus a little bit more on what I think are unnecessarily confusing models out there that either claim to show that immigrants negatively impact U.S. and native born workers' wages, or in some cases, they positively impact, and explain what the difference is, and I think pretty conclusively describe why the models that are best thought of and are considered now the appropriate models and corroborate our observation of history in the last ten years, in fact show that lesser skilled immigrants are helping to, by and large, improve native born workers' wages over time.

So first, let me back up and say, generally, when people say the word economics, I think it makes everyone a little nervous, because then they expect a lot of complicated math and weird vocabulary to follow. But breaking it down, I think there are two important assumptions that drive this debate, and here is the first one. The pie that we describe as our economy, and the jobs and wages available within that pie, is not a fixed pie that we simply divvy up among the people who are here and eligible and able to work. This is a pretty obvious statement, but I think it's important because a lot of work has been done that models the impact. I emphasize, models the impact, as opposed to actually observing it, so it's just theoretical—it models the impact of immigrants' effects on native born workers, and assumes that the pie is fixed.

We know in fact that the second assumption, immigrants themselves, are dynamic participants in the economy, in the view of two really important things. One, they actually allow U.S. business, small and medium, to a certain extent, larger businesses, but really more small and medium sized businesses, to be more efficient in their use of capital. That's just a fancy way of saying that if you have a U.S. born entrepreneur who opens a restaurant, and he or she is thinking about whether or not they expand to do lunch instead of just dinner, one of the hardest things that they face is a constraint, is whether or not they can find enough people, setting wage issues aside, who are willing and able to work in their restaurant. If there are people, they have options, and they can expand to have lunch, and if there aren't people that are readily found, then they can't expand. So this "more efficient deployment of capital" is a fancy way of saying, if you have a building, and you have an entrepreneur, and you have a restaurant, whether or not you get to grow it has a lot to do with whether or not you can find people.

Based on what Ben just finished talking about, we know the demographic trend is very explicit. There are not enough lesser skilled people in the United States to fill these growing jobs, which tend to be more characterized by personal services in retail and agriculture, than say, the jobs which we think of as highly skilled immigrants taking, and professionals taking. So once you focus on that assumption, you realize that these immigrants can bring a dynamic—what we call labor fluidity—to the U. S. economy, which allows, in fact, businesses to grow.

The second part of that is, these immigrants themselves add demand to the economy, and are often entrepreneurial in nature in a variety of ways. So what this means is, if you look at the latest studies, there is what's called the old set of studies, the George Borjas series of studies that showed that U. S. born workers' wages were depressed in the '90s. But the latest treatment of those same panel data, by and large, and just the overall analysis, looking at the entire economy.

The best piece, I think comes out of U. C. Davis, most recently in the last couple months, by Giovanni Peri, and he takes the same overall data and inserts two fairly straightforward assumptions, and just a version of the assumptions I just described. They are, one, we assume that businesspeople in the United States are smart. When they have more options, when there is a larger labor pool, when they can make more choices about expanding, they do so in an intelligent way, and it equals more business, more growth, more jobs. And two, the ultimate impact of that is that we, in fact, are able to lift wages for most of U. S. workers. The exact numbers turn out to be, that U. S. workers experienced, on average, in the 1990s, both empirically and based on the Giovanni Peri model, about a 1.1 percent increase in wages because of lesser skilled immigrant presence in the workforce. Again, it's just the story that the hotel owner was able to open a second hotel, the restaurant owner was able to add on an extra shift, and everybody benefited.

There is one category of U. S. born worker that does suffer in this scenario, and that is, in fact, the high school dropout. As Ben said, that particular category of worker, I think is suffering from lots of problems in the environment of global competitive workforce, and this is one of them. But that percentage is small, depending on how you estimate; probably somewhere in the 9 percent range, and the level of wage decrease on average in the '90s

according to the Peri study, about 1.2 percent for high school dropouts, but everyone else benefited.

Taking it as a summary and wrapping up there, and I think anticipating some questions, it is important to realize that the dynamic models, which assumes immigrants are actual people who invest, save, and spend, and that business people, U. S. born native business entrepreneurs, are smart people, given options, make some smart choices to expand in light of labor opportunities, means that it is not a fixed pie. The immigration story is one that allows for more growth and benefits the native U. S. born workers, once we have the availability of lesser skilled workers.

TAMAR JACOBY: That's perfect, Dan. Now, I'm going to pass it to our third economist, Pia Orrenius, who is a senior economist at the Federal Reserve Bank in Dallas.

PIA ORRENIUS: Well, I just have a few brief remarks. I guess I could follow up on Dan—I think that Giovanni Peri's work was very welcome when it came, and it feels like it has been a long time coming, in the sense that these large estimates of the negative impact on wages that we've gotten from scholars like George Borjas for example, have relied on these models that don't allow for changes in the capital stock or changes in investment. So what we see with the effects, the wage and employment effects of immigration is that once you allow the market economy to respond to immigration, then for investment to increase, you undo a lot of theoretical effects that you get otherwise.

So I think that's just a really important paper that came out recently, because it demonstrates that. It also demonstrates that we don't see a lot of negative labor market impact from low skilled immigration, because they really don't look a lot like native workers. They're not perfectly substitutable for low skilled natives, because they don't speak the language, and they have a different set of skills and so forth. Of course, that changes over time, but I think that that's a really good point.

Let me just say one other thing that I like to talk about. I was originally European; I'm still European but, having come from Sweden, I like the prospect of looking at the U. S. economy, and saying, my gosh, immigrants in the U. S. economy do so well. I'm not there just talking about legal immigrants, but just foreign born in general; I think it's so impressive, when you compare it to Western Europe, how our system has worked, up until recently, and when I say that, I mean, the unemployment rates of our foreign born are so low. They're just about at the same rate as the native born unemployment rates, and the labor force participation rates are typically higher for men, at least, than they are for native men.

It's just this work ethic of immigrants in the U. S. in general is impressive, and I think this is the reason why mass immigration has been sustainable in this country for such a long time. I think in many ways, it has been a system that has worked. I think the stresses that we're seeing now are going to come down to the fiscal impact of low skilled immigration, and that, I imagine, might be taken in the question and answer. In terms of the economic effect and the labor market impact, I think it's difficult to argue that immigrants have been bad for the economy.

TAMAR JACOBY: This is terrific, thank you all so much. Now, we'll open this for questions.

DALLAS MORNING NEWS: One argument that keeps coming up is that we're just trying to access cheap labor through all of this. Could you talk about the economic effects, let's just say for argument's sake, that you're paying workers \$15 an hour versus \$5, and continue that after the economy, what do you see as the effect of that, [what do you] think about the argument?

DAN SICILIANO: This is Dan Siciliano. I'm happy to maybe view the first part of it, and then let someone else compliment. I think that this is a much bantered about argument that has no real support in fact. It turns out, both empirically and otherwise, that once you adjust for education levels and for age, that by and large, there is no statistically significant difference in the overall income earned by a native born worker in a given position, that tends to be, in this case, let's use an example, lesser skilled as compared to an immigrant, and this is consistent with the story we know exists for us, and that is, in fact, these employees are being hired in a context of constrained labor.

You put out a "help wanted," and you hope enough people who can do the job actually show up, and a lot of times, they don't. This is the story we hear again and again; everything from the fisherman to the agricultural environment to the retail shop. Now, that said, I think it is important to acknowledge, that I think on some cases, I think it's relatively area, and it is severe violation in our laws, there are some employers who are relatively despicable, in that they try to take advantage of a subset of undocumented workers, and try to pay less, but quite frankly, I think is the anomaly. I don't think anybody who's thinking carefully about this thinks that that could possibly be a good thing, and I think most of the reform proposals enhance efforts to make sure that that kind of abuse doesn't happen, but the market's going to solve that. The marketplace already tells us that by and large, there's no significant wage difference. They aren't saving money; they're just trying to grow their businesses.

PIA ORRENIUS: Tamar—just to follow up on what Dan is saying, he's exactly right. I think that we see lower wages for the foreign born, because they are less productive, and so in economic jargon, we say that wages are equal to one's marginal product, which is largely a function of the education level, so if we see lower wages for foreign born, it's typically because they have less education. Now, there is an element with undocumented labor, of course, as Dan was pointing out, that there can be situations in which the employer has more power over the employee than is a healthy equilibrium. I think this is the reason why we need to move towards reform and give legal status to these types of workers to eliminate that problem.

DAN SICILIANO: If I can just add to that, anecdotally, some of the businesses that are pressing for reform, have started to ask business associations to start to ask their members who employ immigrant labor to [unintelligible] what you pay people, and I've seen of these lists of what the pay is. Nobody is getting \$5.15 an hour. We're talking about \$10 an hour, \$15 an hour, \$25 an hour, construction. As Pia said, even now, in an illegal situation, and as Pia said, the point about reform will be that once people are legal, they will have the possibility of bargaining, just as any native born worker can bargain, and whatever gap there is now will be eliminated by a legal program.

PIA ORRENIUS: Tamar, just to say quickly, I also think that we need—it would be great if these issues would be talked about in a larger package. One of the things I like about, for instance, what the National Academy did when they were talking about high skilled immigration was talk about immigration as one of five or ten very important points in how to respond to the global competition for talent. I think it would be useful if we had immigration as part of a larger debate about what do we do about those folks who are in unskilled occupations and bringing more of them out of poverty levels. I think the truth is that if you could wave a magic wand tomorrow and make all of the foreign born disappear and replace them with all native workers, you're still left with the fact that it's incredibly expensive to have health care in this country, and opportunities for child care to make you more competitive in the work place and all those kinds of things aren't being addressed, and they need to be addressed.

Immigration is part of our demand for less skilled workers, but it shouldn't replace our interest in making sure that less skilled workers, regardless of where they're from, get an honest pay for an honest day's work.

DAN SICILIANO: Tamar, let me actually put a finer point on that for Ben, I didn't address in my initial comment, and that is, we sometimes pretend that native born workers are not themselves consumers of the beneficial service environment, so the services that are produced by the economy as a whole, and sometimes on a very efficient basis. If in fact we magically eliminated foreign born workers, particularly in the lesser skilled environment, and service costs of day care, health care, retail, groceries, if those costs went up, I think, and there is no study on this yet, but I think that we would radically damage the people who we are mistakenly trying to help. Certainly, their costs go up, and a person who was lesser skilled and native born who needs day care, can't enter the work force because their day care availability either disappeared or became radically more expensive, and that's kind of a painful irony.

WALL STREET JOURNAL: Hi, it's June Kronholz at the Wall Street Journal. Why shouldn't we just assume that if there is a shortage or diminished number of foreign workers, particularly low skilled workers, that the economy wouldn't adjust to this by mechanizing more—the classic example being those tomatoes that are now—by machine in California, rather than by hand?

TAMAR JACOBY: I think the answer on those tomatoes is that the tomatoes that go into cans can be mechanized, but not the tomatoes that you want in your salad, but that's the—

WALL STREET JOURNAL: Yeah, but [crosstalk], I mean, American ingenuity and all that sort of stuff, let's go beyond tomatoes and discuss why this wouldn't force employers to become more creative about mechanizing these low skilled jobs?

TAMAR JACOBY: Dan, can you take that?

DAN SICILIANO: Yeah, I think this is the age old argument that says, if you provide for an environment in which you don't force labor costs off, the capital labor tradeoff might be inefficient, and people don't invest correctly in automating and mechanizing. It's not even

just mechanizing, right? I mean you can automate stuff. Let's first observe that in the retail sector and in health care, we've done about as much as we can do, at least at this moment, in our imagination, to automate stuff. If you look at McDonald's, and you walk in, and you step on the other side of that counter, I think you very much observe an extraordinarily highly efficient system. Yet that environment, retail fast food, faces terrible constraints in finding qualified workers.

So I would argue that certain parts of the economy can be subject to mechanization, but the parts that really need lesser skilled workers, such as health care, elder care, front line retail, personal care, day care, home housekeeping, you name all of those categories. They are not particularly adaptable, unless you jump 50 years and imagine some sort of robotic future, but we know for now, and we know certainly for the next two decades, that there is no escaping the fact that we have a lot of people who need help in their daily lives because they're older, and we don't have enough people to help them do that, and there's no way to magically mechanize our way out of that.

PIA ORRENIUS: I guess my response to that, although it's probably a little bit nerdy economic type response, is that when you have a greater labor supply, is that you actually have an increase return to capital, because capital becomes relatively scarce. So the translation of that in English is that more labor supply, there should be more investments. So this idea that people throw around, there being some kind of back of the envelope calculation whereby you'd have less labor and more investment in a bigger model, the whole economy that's made up of science, that doesn't make a lot of sense.

BEN JOHNSON: Yeah, and I think that's born out in the experiences in terms of the productivity growth we've seen. The common refrain is that immigration is a drain on productivity, and yet again, this productivity miracle that I was talking about earlier occurred during the same period when you saw significant increases in levels of immigration, so I think that bears what Pia's talking about.

DAN SICILIANO: Yeah, and let's throw out a very specific example, and that is, we can enhance the productivity commute by having broader distribution of broadband. How do you do that? Well, among other things, you tear up roads and you lay fiber. If you can't find enough people to help repair the roads, then you tear up roads less quickly and you lay fiber less quickly, and actually, I guess that's a little bit of our distribution of broadband story in the United States, and hence, you actually reduce the ability of the economy to boost the productivity of other people in the economy.

We have to keep remembering that there are different parts to what needed to get done, and part of it is a very practical, on the ground, someone has to be there to do it, and it turns out that the immigrant work force is playing a very critical part of that.

TAMAR JACOBY: It's the guy who's babysitting for the brain surgeon so he can go to the operation.

ARIZONA REPUBLIC: My question, can I shift gears a little bit; I'm curious from your perspective, on an economic development standpoint, how the recent marches that we've seen across the country, and we have a huge one planned here for Phoenix next Monday.

Has that outpouring of the marches had any kind of economic impact or economic development impact on the local community? When you answer my question, could you identify yourself, so I could make sure I get the right attribution?

TAMAR JACOBY: That's one I hadn't thought of. Does anyone have an answer to that?

PIA ORRENIUS: This Pia Orrenius with the Dallas Fed, and I guess, what I see, when I see the marches, I see perhaps part of the aspect, and we've had a system that has worked in a greater sense for a long time, maybe since the last amnesty in 1986, but part of the tragedy in the medium to long run situation that we have now with such high levels of undocumented immigration are the kids that are coming. The children of illegal immigrants, and those children who are brought to this country as illegal immigrants, and grow up in a system as American children, completely and fully assimilated in terms of English language ability and so forth.

Then certainly, after graduation, even if they go to college and pursue their college education, they never do have permission to work, and they can't participate in the economy, and you don't see this at first with illegal immigration. The first few years, you don't notice, but lo and behold, ten, 15 years down the line, which is about where we are now, you see this human tragedy of the situation that we have currently. This is the reason we need reform in such a dire way, that the human capital is really being—we're not tapping into the human capital and the investment potential that we have in the next generation, because we have so many people now with illegal status.

ARIZONA REPUBLIC: My question was, do the marches or protests, does that gear off business to a local economy for relocating, or for businesses thinking of expanding, because typically, businesses want to have secure areas, places that are calm, things that are status quo, and I was just wondering from your perspective, when you have this unrest, what does it do to a local economy that's trying to improve more businesses with the local economy?

PIA ORRENIUS: Oh, I misunderstood your question.

ARIZONA REPUBLIC: I'm sorry.

PIA ORRENIUS: Yeah, I don't know what other people think, but I think that these marches are just a response to what's going on currently, and I think they'll step aside once there's a resolution to the issue.

TAMAR JACOBY: Can we have the next question?

DES MOINES REGISTER: Thank you. I'd like to ask Ben Johnson, I heard you say in your remarks, and I just wanted to double check, make sure that I heard you correctly, that you said that there are more high skilled immigrants coming into the workforce than low skilled workers, did I hear you correctly, and would you amplify on that, please?

BEN JOHNSON: Well, I have the percentage of the growth, right, so if we look at the census in 1970, for instance, the percentage of foreign born who had doctorates or masters in professional degrees was around 5 percent, 6 percent, that kind of thing. Now, the

percentage of the foreign born who have masters and professionals' degrees and doctorates is more like 10 percent, and doctorates especially, closer to 15 percent, so the growth as a percentage of the labor force among high skilled occupation is larger than the percentage of growth in lesser skilled occupations.

PIA ORRENIUS: This is Pia. Ben, I was also confused by when you said that, because when I look at the data, about a third of the foreign born are high skilled, have a college degree or higher, so I was a little bit confused when you said—I mean, more are low skilled, but as many as a third are high skilled.

BEN JOHNSON: Right. Clearly, I didn't articulate that very well, and I meant to talk about the percentage of growth within—

PIA ORRENIUS: Over time.

BEN JOHNSON: Over time, based on educational level, that was my point that the share of the workforce that is in high skilled occupations that is foreign born is growing faster than the share at the other end of the skill spectrum.

DES MOINES REGISTER: Okay, if I could just follow up on that then, Pia, you said that the higher skilled, higher educated immigrant community represents about a third of the immigrant workforce in the United States, did I hear that correctly?

PIA ORRENIUS: Yes, that's right.

DALLAS MORNING NEWS: Hi. Some argue that legalization could cause more immigration, and I'd like to know if you believe this, and would it be a bad or a good thing?

TAMAR JACOBY: My belief is that the reforms being considered are not going to cause more immigration, that what they're going to do is create a way for those now coming illegally to come legally. My contention would be that we're at a kind of market equilibrium now, and that creating a legal program isn't going to change that market equilibrium substantially if it's designed right; it will just shift it to the legal column as opposed to the illegal column, will create legal channels, people will use those legal channels, and there will be additional support to make sure they use those legal channels and not others. Certainly, the intent is not to stimulate a new flow, but to channel the existing illegal flow into a rational, common sense, dignified, humane, lawful program as opposed to people walking across the desert at risk of their lives and undermining our rule of law.

PIA ORRENIUS: Diane, I can answer, this is Pia, this is my main concern as well, is that whenever you have reform, and reform may be necessary, but any type of reform is going to have benefits and costs like anything else, and one cost of reform and legalization is that you are creating higher incentives for immigration, particularly illegal immigration if people expect amnesty to occur again in the future, so when the government undertakes reform, they have to have a credible that this is really it, we're really not going to do this again. The problem is, how credible is the government when they say that, as obviously, we're on our second or third amnesty, or maybe, but anyway, so how do you confront—you have

increased incentives to immigrate, but you won't necessarily have increased immigration, if, as Tamar pointed out, you have increased enforcement.

TAMAR JACOBY: This is Tamar. Pia, doesn't your research look at whether the reform of '86 did in fact increase the flow, and didn't you find that it was a short term increase of people coming to join families, but that it didn't overall create significant incentives?

PIA ORRENIUS: Well, that's right, Tamar. I mean, it was interesting; it created no change in the flow of illegal immigrants as we measured it, but the problem was that after we legalized over 2 million Mexicans, we should have seen a decline in the flow, because we said, oh, probably a lot of these people are going circular, so they're coming and going and coming and going. If we take 2 million out of the circular flow, we should see a drop in the inflow, and we didn't see a drop, so we saw a sustained inflow of illegal immigrants even after legalizing 2 million Mexicans, so there's some evidence that the flows were completely unresponsive.

TAMAR JACOBY: But if the economy continues to grow, and we continue to need workers, you would expect that in any case.

PIA ORRENIUS: That's right.

BEN JOHNSON: This is Ben. I also want to point out that what the '86 Act failed to do was to address more appropriate legal channels for future migration. So I think everybody recognizes, and I think there was some talk at the time, about the failure of a strategy that simply provides a legal status for an undocumented population that are here, imposes penalties on employers for hiring workers, but then doesn't address the ongoing need for legal channels of immigration. We certainly can't adopt that same strategy this time. I mean, you can't just have a guest worker program, you can't just have a legalization, you can't just have enforcement. You really need all of those three things together in order to have a better response to undocumented immigration.

TAMAR JACOBY: If I can just back that up, it's Tamar JACOBY again, the image is, if the market's equilibrium creates, in effect, a river, a flow of water, and the pipeline is too small, our quotas are too low, what you are going to have over time is, a big puddle is going to collect of water that's not going through the pipeline, and what we basically did in '86 was dry up that puddle by giving the people who were here who were illegal an amnesty, but we did not enlarge the pipeline, so over the increasing 20 years, people continue to come, but they were still coming out—many of them, a third of them, outside the pipeline, and so of course, 20 years later, you had another big pool, as it were, of undocumented people, and what is being proposed now in the Senate is that we both do something about that existing pool and enlarge the pipeline, and add enforcement to make sure that people come in that pipeline and aren't coming through the ceiling, so to speak.

PIA ORRENIUS: So we did create a program for agricultural workers, a guest worker program for agricultural workers.

TAMAR JACOBY: But what about everybody else?

PIA ORRENIUS: Wait a minute that program, the H2A Program, was a terrible program, and nobody uses it, so it was a very ill-designed program. If it would have been better designed and more usable, I'm sure it would have been used.

TAMAR JACOBY: But it still wouldn't account for service workers and construction workers and retail workers and like that.

PIA ORRENIUS: Yeah, of course; the fact that IRCA came with no legal channel, no sensible legal channel for workers to come in, and that it had no enforcement mechanism that was ever utilized or put in place by the authorities, those are the two downfalls of it.

DAN SICILIANO: This is Dan. I think it does go back to what the market's equilibrium is going to be, and in this case, I think there is much more credible, probable, employer-based enforcement, worksite enforcement, and in light of that, I think the marketplace will, in fact, equilibrate, such that you have the outcome of a—the demand goes down for these workers outside of the legal channels, if it's crafted correctly.

SACRAMENTO BEE: I think you've all made a very good economic argument, but my question is really political and economic, I guess, because the 1986 flow, I think the flow, we didn't enforce employer sanctions, and I'm just wondering how confident you all are that it will happen this time?

TAMAR JACOBY: It wasn't just that we didn't enforce them. We didn't create a workable mechanism. What has to happen has to be something on the model of what happens with credit cards. It has to be a card with a number, and then you have to be able to check that number against a database, and the people that understood that at the time in '86, but there wasn't the political will to go that far. Now, everyone understands that it isn't going to be good enough just to have the card, because the cards, even in a more technological age, biometric cards, that sort of thing. If you don't check the cards against a database, you're opening yourself up to counterfeit cards, which is what happened last time, but every bill on the table now provides a system where you do check the numbers against a database.

BEN JOHNSON: This is Ben Johnson. We also have to be looking then at the administrative side of this. I think the immigration agencies, whether it was the INS, the new DHS, they are the victims of more unfunded mandates, I think, than any other agency I know of. We asked them to do more with less, again, than almost any other government agency, and if we don't invest in a well trained, well-resourced group of officers who are in charge of sorting through the applications, figuring out which ones are good and which ones are bad, we're not going to get this right, we're not going to be able to provide employers the kind of quick responses that they need for the kind of labor that we're talking about, so I think it doesn't make for very good press conferences or sound bytes, but I think we need to invest in the agency itself.

I think the biggest failure, for instance, is that the agency, the service side of the agency depends almost entirely on user fees. We don't provide any direct appropriations. Maybe those direct appropriations could be paid by user fees, but just the fact that they have to come first from user fees, right, the fees that people pay for applications creates huge problems in the agency in terms of trying to predict the size of the workforce that they can

afford to hire based on the demand that's coming—I mean, that's just not the right way to go about that particular agency, particularly when we know, from a homeland security perspective, there's also a real value to making sure those decisions are made effectively and efficiently, so I think we're missing an opportunity here, to include reform of the agency itself.

TAMAR JACOBY: But one thing I would add is, I think we are in a very different political climate than we were in 1986 on a lot of things. For one thing, in a post 9/11 era, the idea of having cards that have your social security number embedded in them, that you show in order to get a job and it gets swiped, it's less, there's a lot less resistance to it today than there was 20 years ago. People are getting used to showing their ID; I show my ID, I don't know, 20 times a day, to get in and out of every building I have to go in. We're all used to showing ID's. Employers, too, resisted the idea of serious employment verification in '86; now, I think, increasingly, they realize—I'm sure the ones who are the bottom feeders who are hiring people for \$5 an hour don't want verification, but any big company, any agricultural company with perishable produce, a brand name company that has a reputation and needs consumers, any company with an HR department would rather have a legal workforce. It's more stable, it's more reliable, you're not subjecting yourself to the possibility of prosecution, but they don't have the tools right now, and they're realizing that, so rather than resisting it, as I believe they did in '86, I believe this time, what we're seeing is, we're seeing the business world eager to have the tools. Right now, we're asking them to eyeball the MasterCard, and if it's not right, eat the price of the shirt.

In this situation where the government is making the determination and a database is responding, these employers will not have the same kind of legal liability, and they're eager for that, so I think the political climate has changed, and even on the spending issues and reorganization issues that Ben is talking about, in post 9/11, we've done amazing things at the point of entries, U. S. visits, sharing of databases, flight manifests; I mean, we've revolutionized the way that works in five years, with a lot of money in it; it is no longer the DMV. Every part of the government doesn't have to work like the DMV. Where there's a political will, I think we can do employment verification.

BEN JOHNSON: And Tamar, I can't help resisting—ironically, it is largely result of a lot of high skilled immigrants that we have the technology and the lower cost science to deploy, as you just described, and in the future.

CADET NEWS SERVICES: Hi. I want to get back to economic issues, and there are a lot of broad things happening with the economy, and I'm not clear how you break out immigration versus loss of manufacturing jobs in light of several years of increasing poverty, several years of a decline in median family income adjusted for inflation—how do you sort that all out and attribute one thing to one factor and not to another?

PIA ORRENIUS: I can take a first stab, Tamar. This is Pia. First of all, from the manufacturing industry, we've seen a decline in the workforce of the manufacturing industry; that started in the '70s, so that's sort of a long term trend that we don't see as very related to immigration at all. In fact, if anything, immigrant workers tend to be disproportionately employed in manufacturing, and so they would be sustaining probably some, especially low skills in manufacturing establishments that are still in the United States.

CADET NEWS SERVICE: But I'm talking about this in terms of perhaps competition for jobs, that loss of manufacturing jobs are putting people in the workforce who are competing with new immigrants, perhaps. I've heard that argument.

PIA ORRENIUS: Oh, so you mean displaced workers competing with [crosstalk]?

CADET NEWS SERVICES: Right, displaced workers, yeah.

PIA ORRENIUS: I thought you were addressing [crosstalk]. I don't know of any empirical evidence that looks particularly at displaced workers for manufacturing exactly, but in terms of your other two questions, as far as we've had a slight increase in poverty rates in the last few years and a decline in real median incomes, and it's a good question. The problem there is, we've just had a business cycle, we had a recession, we had a jobless recovery, and so it's difficult to parse out whether immigration has had any impact on those precise factors in the last few years. But just to remind you, in general, we've had declining unemployment rates since about 1980, and we've had really robust increases in income and declines in poverty in the 1990s, and so at the same time we had huge increases in immigrant inflows, so again, the evidence is not really in on those, but I just want to point that out.

DAN SICILIANO: This is Dan Siciliano. Pia, is it worth maybe pointing out that also, in terms of job creation, even during that time frame, that reabsorbed some of the lost jobs in manufacturing and other sectors, that job creation tends to come disproportionately from small and medium-sized businesses, not from large businesses, and certainly not from manufacturing. We do know, empirically, that immigrants play a disproportionate entrepreneurial role in starting and growing small businesses, either as founders themselves, or at times, as key players in those companies. I know that we don't have extensive studies on this yet, but I think that's an important part of the story, which is, where do jobs come from, that these people who are displacing manufacturing go to. One of the key places is, in the small and medium sized service and hospitality sectors, where we've seen a lot of growth, and those have a lot to do with immigrants' involvement in growing the business. With that, I have to sign off. I apologize; this is Dan Siciliano, thank you so much.

TAMAR JACOBY: Thank you for participating, Dan. Great to have you.

AMERICAN CITY BUSINESS JOURNAL: Yeah, I've got a question about the more informal labor markets, like a lot of immigrants work as day laborers. Is there any evidence as to what the impact of the economy that this has, and secondly, what will happen to these informal labor markets if there is immigration reform that brings these workers into the legal realm?

PIA ORRENIUS: I'm sorry, you said, what is the impact that this will have?

AMERICAN CITY BUSINESS JOURNAL: Yeah, if there's immigration reform, then basically—a lot of the folks that are working as day laborers, either having bought the fake ID's or whatever people are using to get jobs with conventional employers and are working informally, and I guess I had two questions; one is, how much of an impact does that have on the economy, this informal labor force that's out there, and secondly, what will happen to

these day laborers and the access of the people that employ them, if immigration reform happens?

PIA ORRENIUS: I don't know exactly how the impending legislation right now, how it addresses day laborers, but as far as the economic impact, it's not a large enough sector that we would see any impact nationwide. I think there are certainly local labor markets that depend on day laborers and the sort of informal market, but presumably, a lot of this stuff would become regulated and taxed under whatever reform that we have, and so—with the economics effects, presumably, that would improve these peoples' working conditions, but at the same time, might dampen some of the activity.

BEN JOHNSON: This is Ben, I'm not aware of any studies that look at the impact of those informal markets, even in a local sense. I think you're likely to see perhaps less participation in those informal gatherings, as more people have a legal—if people were given a legal status, and be able to participate in a more formalized labor market for jobs, and more likely to have stability and all those kinds of things, but I think that that is going to continue to exist, perhaps on a smaller scale, because a lot of these folks, they took to their feet and went after an opportunity, and I think a lot of these informal gatherings of people is a byproduct of the fact that they are particularly hungry for a job. I don't think that's going to change if they get a legal status; I just think they're going to have a little bit more bargaining power, and probably a lot more likelihood that we will be comfortable with providing them an awning to stand under or some more formalized way for them to engage in that behavior.

CHRISTIAN SCIENCE MONITOR: Thank you. Two related questions, one might be for Dan, who's gone, but is there a point, at which point there are so many low skilled immigrants that it will reduce the wages of most higher wage workers, and my second question is, is there an economic difference between raising all immigration quotas for most countries into the U. S. versus having a guest worker program with Mexico?

BEN JOHNSON: Well, I think from the work that Dr. Peri, he wrote this—a portion of his study was—we published that recently, a readable version of it without all the formulas and that kind of thing, and I think the gist of it, when you shed it of all the other economic jargon, is that as long as the work is complimentary, as long as the labor is complimentary rather than competitive, you're not going to see a significant wage impact, if at all. Right now, all of the indications are that the labor the immigrants provide compliment the native born workforce, that it is distributed across an educational spectrum, and that immigrants, first of all, are in industries that require levels of education that the native born labor force aren't well suited to match.

Even within specific industries within the same educational group, immigrants are employed in different kinds of labor; ethnic foods, and into certain kinds of work where they're not directly competing with immigrants. As long as the labor continues to be complimentary rather than competitive, I don't think you're going to—and the raw numbers really aren't going to make much of a difference. As Danny said, the pie can get bigger. There's no finite number of jobs. As we grow enough jobs and the labor flows continue to be complimentary, then I think you're going to see the continuation of the same trend in terms of positive rather than negative wage impact.

TAMAR JACOBY: I think we have time for one more question.

BEN JOHNSON: There was a second part to that, but I don't—

PIA ORRENIUS: I don't know, did you want to—about increasing quotas with all countries, but not just—yeah, so I guess my answer to that is, whatever reform is undertaken, we do need to recognize that Mexico has a special place, so we have a special relationship with Mexico and Central America, if for nothing else, because that's where a lot of our workers are coming from, so we shouldn't turn a blind sight to that side. If we want credible, practical reforms, we have to recognize that that's where a lot of our labor supply is going to come from, so we might as well institutionalize it, at least to a certain extent.

BEN JOHNSON: I think that that exactly right. The geography, as well as the special relationship that we have with Mexico and Canada is unique, and I think that under the current law, the fact that they get access to the same number of immigrant visas, for instance, as Mongolia, I think is a mistake. I think we need to think about that.

SAN FRANCISCO CHRONICLE: Thank you, this is Tyche [Hendricks]. I just wanted to push a little more on the wage question. My understanding is, the AFLCIO is coming out against the guest worker part of the Specter bill, and presumably with some concerns about a two-tier workforce, undercutting American workers. I guess I would take a little issue with them on the question of the complimentary nature of the jobs and the lack of competition. I'm wondering about the construction industry in particular, and is it not fair to say that there is some undercutting of wages by immigrant workers, whether it's because they're undocumented, or because they don't speak much English, or low skill quality, and a corollary to that, if jobs in agriculture and meat packing and fast food retail were paid better, if the conditions were better, would they not be more appealing to U. S. workers?

BEN JOHNSON: Well, again, it's not that there isn't competition. I think overall, immigrant labor compliments the native workforce rather than competes with it, but there is some competition, and I think I tried to suggest that in those opening remarks, and that is that we've had significant educational progress in the United States, and we ought to do more to provide those workers who aren't experiencing that educational progress, the opportunities and the incentives to do that, but the fact that we have, for instance, immigrant labor in the construction industry doesn't necessarily mean that they're competing with native workers.

You look at the construction industry; what you see is, immigrant labor, predominantly working as sort of construction helpers, so you have a master plumber, and then you have somebody who does the initial sweating of the pipe, or who sands the pipe and prepares it to be sweated, so you see a lot of—that native workers are those master plumbers, and immigrant workers are their helpers, and clearly, if you give them a legal opportunity, they will be tomorrow's master plumbers and installers, but right now, they really are, I think, helping the productivity of the workforce as a whole, and for the most part, not competing directly with native born workers. Again, not that there isn't competition, but I think overall, I think my characterization is correct.

PIA ORRENIUS: I guess what I would say, just to add to the benefit of that, for labor, it's just a little bit of a mystery why wages haven't fallen more in response to lots of immigration, and so we say, well, why is the wage impact not more negative, and so we say, well, it's probably because there are these complementarities, and these workers are not exactly the same, but you're exactly right, Ms. Hendricks, when you say that there is a wage effect, certainly, and I don't think that we should come off as trying to say there is no wage effect. There is a wage effect; the more workers you have, the lower wages are, that has to be the case, but there are these offsetting mechanisms that Ben has talked about which are really important, and that's why we observed a small wage effect, I think.

As far the second part of your question, if we didn't have the foreign born workers, wouldn't wages rise and native born would take these jobs, and I think to a certain extent, yes, you would see wages rise if you didn't have as much immigration, but you also wouldn't have many of those jobs, and when you don't have many of those jobs, you lose the other benefits that come with that, so when people say, and they argue a lot, well, just don't have the immigrants, and just let the wages rise and the native born will take those jobs. Well, guess what, in a lot of cases, those jobs would not exist at the types of wages that would be necessary to pay the native born to do them, so it's a little bit of fallacy.

TAMAR JACOBY: Thank you all so much, thank you to our panel, thank you to the reporters who were all on the call. I'm sorry if there are questions still pending, but what it tells us is that we have to do this again sometime. Whether or not the bill passes, this is obviously a question, and I think, given the demand, there will be more of this.