FISCAL POLICY INSTITUTE

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National Commission on Fiscal Responsibility and Reform

Dirksen Senate Office Building Room 628
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Thank you for the opportunity to testify here today. My name is David Dyssegaard Kallick, and I am senior fellow and director of the Immigration Research Initiative at the Fiscal Policy Institute.

In case it is not obvious why it may be helpful to add the controversial issue of immigration reform to the already complex question of establishing fiscal balance, let me mention two words: *economic growth*.

In the long run, a critical aspect of reducing today's debt is ensuring future economic growth. The United States did not pay down the debt accumulated during World War II with austerity budgets; the debt shrank because the post-war economy grew dramatically. That approach worked: Baby boomers didn't complain to their parents about the debt they inherited, they thanked their stars—or they should have—for the economic expansion they grew up in.

Looking at the possibilities for economic expansion that lie ahead, immigration is hardly a marginal issue. Immigrants—documented and undocumented—currently make up twelve and a half percent of the U.S. population, and are responsible for 14 percent of our Gross Domestic Product.[1] Contrary to popular misconception, immigrants work in jobs across the economic spectrum. Nearly half of immigrants are in white-collar jobs, for example. Nearly a quarter of immigrants are in managerial and professional specialties alone.[2]

Immigration is closely tied with economic growth: Where there's economic growth there is immigration, and where there immigration there's economic growth. We saw this starkly in a recent Fiscal Policy Institute study of immigrants in the 25 largest metropolitan areas. From 1990 to the period just before the current downturn, the metro areas with the fastest economic growth—Phoenix, Denver, and Atlanta—also had among the fastest growth in immigrant share of the labor force. By contrast, the metro areas with the slowest growth—Cleveland, Pittsburgh, and Detroit—had among the smallest growth in immigration.

To economists, that's clear. Immigrants generally come *where* there are jobs—and, as corollary research from the Economic Policy Institute shows[3], immigrants generally come *when* there are

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[1] *Immigrants in the Economy: Contribution of Immigrant Workers to the Country's 25 Largest Metropolitan Areas,* Fiscal Policy Institute, December 2009, available at www.fiscalpolicy.org.
[2] *Across the Spectrum: The Wide Range of Jobs Immigrants Do*, Fiscal Policy Institute, April 2010, available at www.fiscalpolicy.org.
[3] Heidi Shierholz, "Immigration and Wages—Methodological Advancements Confirm Modest Gains for Native Workers," February 4, 2010, Economic Policy Institute, p.18.

jobs. Immigrants fuel a positive economic feedback loop. They are drawn by economies that are already growing. And, when they come they fuel further growth, filling labor market demand, buying goods and services, starting businesses, making investments, and further expanding the economy.

Just as important to the question of fiscal balance is the fact that as the U.S.-born population ages, immigrants who come here are overwhelmingly in prime working age. Immigrants make up 12.5 percent of the total population, but 15.5 percent of 16- to 64-year olds.

With immigrants playing such a large role in the economy—again, they account for 1/7th of total GDP—we can't say we are acting in a fiscally responsible manner as long as we live with a seriously broken immigration system.

The flaws in today's immigration system create problems for both workers and businesses. And, they wind up leaving potential economic growth on the table. We throw up unnecessary hurdles that keep high-skilled immigrants from coming to work here even when there is a clear economic need. There is a glass ceiling above the estimated 10 to 12 million undocumented immigrants here today—who, research shows, if given legal status would be far more likely to invest in their own education, start businesses, own homes.[4]

If we create a climate of hostility to immigrants, we risk losing immigrant-spurred growth to other countries, which will get the future Nobel prizewinners and corner-store owners. On the other hand, if we reform the immigration system properly, we can unleash economic growth right here.

Getting the immigration system right will not be simple. A reformed immigration system—as well as improved labor laws and enforcement—should be designed to reap the benefits of growth while paying close attention to raising the standard of living for U.S.-born workers.

Getting this equation right is important for many reasons, but certainly one is that growth is very good for paying down the debt—if we have a bigger economy in ten years, paying off today's debt will be that much easier.

While immigration reform is highly controversial, one good thing that can be said is that although it costs political capital, doing it right does not cost much money. There isn't such a long list of ways to improve the economy that you can say that about.

Finally: Much of our organization's work deals with the budget and tax policies of New York State and New York City, entities that have the third and fourth largest governmental budgets, respectively, in the United States (after the federal government and the state of California).

We urge the Commission to carefully consider the effects of its recommendations on the fiscal well-being of state and local governments. State and local governments directly provide many of the governmental services—whether for health, education, transportation, recreation, or infrastructure—that determine the quality of life in our communities and the functioning of our regional and local economies. Seven out of every eight government workers in the United States

[4] Raúl Hinojosa-Ojeda, "Raising the Floor for American Workers: The Economic Benefits of Comprehensive Immigration Reform," Center for American Progress, January 7, 2010.

are employees of state and local governments. Their nearly 20 million workers make state and local governments by far the largest employer in the country, with 50 percent more workers than in the private health care sector.

Federal aid to state and local governments is an integral part of our federal system of intergovernmental relations, and constitute a substantial portion of state and local budgets. For example, New York State will receive an estimated $45 billion in federal operating aid in the 2010-2011 fiscal year, an amount representing about 36 percent of the state's operating funds budget.

Federal funding is critical in many vital areas of state and local spending, particularly health care, education and training, transportation, and human services. Most of these funding streams fall into the non-defense, discretionary category that is frequently targeted when it comes to federal deficit reduction. Counter-cyclical federal fiscal relief to states and localities has been particularly important during this Great Recession in helping states cope with the unprecedented falloff in tax revenues and the increased demand for state and local government expenditures to address mounting economic hardships. The American Recovery and Reinvestment Act provided $140 billion in Federal fiscal relief that has helped states moderate budget cuts and tax increases. The continuing shortfall in tax revenues further imperils state and local budgets at a critical point in the nation's economic recovery. State and local government spending reductions reduced first quarter GDP growth by half a percentage point from 3.2 percent to 2.7 percent.

National economic prosperity depends on well-functioning state and local governments that are able to provide high quality services and efficient infrastructure systems; and it requires institutions that foster the development of human capital. We urge the Commission to avoid making any recommendations that would impact negatively on the fiscal performance and stability of state and local governments. Our collective social and economic well-being will suffer if state and local governments are starved of needed federal financial support.

The Fiscal Policy Institute is a nonpartisan research and education organization focusing on tax, budget, and economic issues, with a primary focus on New York State. Our work on immigration looks at the nation as a whole, as well as at local economies around the country.

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I would also like to submit two reports as additional testimony:

Immigrants and the Economy: Contribution of Immigrant Workers to the Country's 25 Largest Metropolitan Areas
http://www.fiscalpolicy.org/ImmigrantsIn25MetroAreas_20091130.pdf

Across the Spectrum: The Wide Range of Jobs Immigrants Do
http://www.fiscalpolicy.org/FPI_ImmigrantsAndOccupationalDiversity.pdf