

**Testimony of William R. Hawkins**  
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**Before the**  
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**International Law**  
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**Comprehensive Immigration Reform: Business Community Perspectives**  
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Chairwoman Lofgren, Ranking Member King, members of the subcommittee, thank you for inviting me to present a business perspective on the immigration issue.

I am William Hawkins, Senior Fellow at the United States Business and Industry Council. The USBIC is an association of approximately 1,500 small and medium sized U.S. companies engaged in a wide variety of manufacturing and services. Our member business owners and CEOs consider themselves first and foremost to be citizens of the United States. As such, they are concerned with the long-term security and prosperity of the United States, both of which are factors in the current debate over immigration policy and border security.

America has benefitted from immigration, indeed, it is a country of immigrants who founded colonies on the Atlantic coast and then advanced across the continent. But immigration policy must keep in focus the needs of the country. Current policy has failed to do this. The acceptance of an open southern border has allowed foreigners to set de facto policy in contradiction to the de jure policy of the U.S. government. The result has been a flood of low-skilled illegal immigrants who can contribute little to the real economic progress of the United States. For example, in 1960, recent immigrants were no more likely than were non-immigrants to lack a high school degree. By 1998, recent immigrants were almost four times more likely to lack a high school degree than were non-immigrants, and the situation has only worsened as the wave of illegal immigration has risen higher since 2000.<sup>1</sup>

The Senate proposal (S. 1348) would ratify and codify this broken system, not correct it. The new Z visa category, which will be issued only to illegal immigrants, will allow them to legally live and work in the United States while their cases are being reviewed. It is clearly an “amnesty” both for the illegal immigrants and for the firms that illegally hired them. Another provision would confer permanent resident status adjustment for a qualifying illegal alien (and the spouse and children of such alien) who has been in the United States for five years and employed for specified periods of time. It thus locks in place a largely impoverished class of people as the legacy of past failed policy.

Even with the economy now adding jobs, the number of Americans who fell into poverty stabilized at 12.6 percent in 2005 after 4 years of consecutive increases,—higher than the most recent low of 11.3 percent in 2000 (according to Census Bureau figures). The Census Bureau also shows that in 2005, the most recent year data is available, Hispanic men had median earnings of only \$27,380 compared to \$48,693 for Asian; \$46,807 for White; and \$34,433 for Black men. The median income for Hispanic men was not much above the median for men with less than a high school education (\$22,138). Median income for all men with a high school degree was \$31,683.<sup>2</sup>

These statistics indicate that even after 22 straight quarters of economic growth (albeit the revised first quarter of 2007 was only 0.6 percent of GDP), the kind of jobs that are created, and the education and skills of workers available, make a difference as to whether living standards are being raised and whether the country is really moving forward. The May household survey of employment, which includes the self employed, indicates another 52,000 adults left the labor force, as the ranks of discouraged workers continue to swell. According to Peter Morici, Economics Professor at the Robert H. Smith School of Business, University of Maryland, “Low wages are discouraging many adults, who prefer to draw down assets or rely on incomes of spouses rather than accept substandard employment at poor wages and with few benefits. The unemployment statistics do not reflect this reality, though it is importantly responsible for lackluster GDP growth, terrible U.S. savings performance, Americans borrowing from foreigners at a pace of \$50 billion per month, and a U.S. debt to foreigners now topping \$6 trillion.”<sup>3</sup>

One of the factors which is encouraging some business firms to hire is the availability of so-called “cheap” labor, much of it from illegal immigrants. According to an article in the November/December 2003 issue of *Southwest Economy* published by the Federal Reserve Bank of Dallas, “Immigrants overwhelmingly filled blue-collar jobs (operators, fabricators and laborers) but also accounted for as much as half the growth in categories such as administrative support and services....It also means that as immigrants entered these occupations, native workers exited.”<sup>4</sup> This was particularly true in the blue collar category where immigrants accounted for nearly 700% of the new jobs! That means they pushed tens of thousands of Americans out of those jobs, by underbidding their wages.

Has this process enriched the country? Has it improved living standards? No, it has clearly not. In the words of economics columnist Robert J. Samuelson, “Since 1980 the number of Hispanics with incomes below the government's poverty line (about \$19,300 in 2004 for a family of four) has risen 162 percent. Over the same period, the number of non-Hispanic whites in poverty rose 3 percent and the number of blacks, 9.5 percent. What we have now -- and would with guest workers -- is a conscious policy of creating poverty in the United States while relieving it in Mexico. By and large, this is a bad bargain for the United States.”<sup>5</sup>

The great success story of the United States is that it raised the working class into the middle class, the real path to higher standards of living for the population as a whole. But there

are those in the business community who seem to think the American achievement has been overdone. In their view, we need more poverty, not less.

To many businessmen, cutting labor costs by reducing wage levels seems expedient. And in an economy where the laws against illegal immigration have collapsed, there is even competitive pressure on firms to match what rivals may be doing, even if otherwise law-abiding owners and managers may personally find the practice troubling. Firms that hire illegal workers for lower wages, fewer (if any) benefits, and sometimes off the books entirely, do so to gain a competitive advantage against firms that obey the laws and only hire within the legal labor market. Honest business owners are placed in the difficult position of having to choose between emulating the unlawful behavior of rivals or risking the survival of their own companies. No one should condone a system that creates this kind of ethical dilemma.

The proper way to cut labor costs per unit of output is to increase productivity, a process that boosts workers incomes and company profits at the same time, and which is the only way to elevate the living standards of an entire society. The unregulated availability of cheap labor leads away from innovation. Technological progress is promoted by the pursuit of “labor saving” methods in markets where labor supplies are tight and expensive.

A research report from the Federal Reserve Bank of Philadelphia looked at whether the availability of cheap, unskilled workers with limited educations slowed the adoption of new technology. The paper entitled “Immigration, Skill Mix, and the Choice of Technique” by FRB economist Ethan Lewis, concluded, “Using detailed plant- level data from the 1988 and 1993 Surveys of Manufacturing Technology, we found in both 1988 and 1993, in markets with a higher relative availability of less skilled labor, comparable plants – even plants in the same narrow (4-digit SIC) industries – used systematically less automation. Moreover, between 1988 and 1993 plants in areas experiencing faster less-skilled relative labor supply growth adopted automation technology more slowly, both overall and relative to expectations, and even de-adoption was not uncommon.”<sup>6</sup> De-adoption! There is no positive spin for a retreat from technological progress.

Dr. Lewis continued, “Manufacturing automation is particularly suited to evaluating the impact of immigration because less-skilled workers in SMT-covered industries, especially immigrants, are concentrated in labor- intensive assembly, welding, and other tasks that these technologies replace....The combined data show that, in two separate cross sections, the higher the relative number of workers who were high school dropouts in a metropolitan area, the less automated the plants in the area were. In addition, between 1988 and 1993, plants’ use of technology grew more slowly, both overall and relative to forecasts, where the relative number of dropouts in the local work force grew more quickly.”

This is not just a problem for manufacturing, but for agriculture as well. Philip Martin, a professor of agricultural and resource economics at the University of California-Davis, has argued, “Once a guest worker program is in place, farmers invest in lobbying to maintain the program, not in labor-saving and productivity-increasing alternatives.”<sup>7</sup> Cheap labor may look

like the easy solution, but it is not the best solution for a society that wants to progress. And for most businesses, a high-income economy is a much better market for their goods and services.

Though some business firms lust after cheap labor, in an advanced society such as ours, there is no such thing. There is only subsidized labor. When workers cannot earn a living wage, society steps in to make up the difference through a variety of transfer payments administered by governments at all levels and paid for by taxpayers. Society also provides a wide variety of “public goods” to all residents. That means our business owners, their employees and their customers – all of whom are substantial tax payers, are subsidizing those firms that are using “cheap” labor either to fatten their bottom lines or gain an edge over more responsible firms.

The higher costs for health, education, and welfare, not to mention crime control, that result from such a large increase in the number of people living in poverty is substantial. This financial pressure is already undermining state and local governments, school systems, and hospitals. Robert Rector of the Heritage Foundation has concluded that the Senate bill “would be the largest expansion of the welfare state in 35 years.” His research shows “the U.S. has imported poverty through immigration policies that permitted and encouraged the entry and residence of millions of low-skill immigrants.”<sup>8</sup> His latest calculation concludes, “There are currently 4.5 million low-skill immigrant households in the U.S., containing 15.9 million persons, roughly 5 percent of the U.S. population. At each age level, low-skill immigrant households receive substantially more in government benefits than they pay in taxes. **Overall, low-skill immigrant households impose a net cost of \$89 billion per year on U.S. taxpayers.**”<sup>9</sup>

Society advances by alleviating poverty, not by importing more of it.

If one looks around the world at those countries with the worst living standards, their problem is clearly not a lack of cheap labor. Indeed, their problem is that cheap labor is all they have. What they need is capital investment in advanced methods. Economic theory, however, argues that managers will use the least-cost method of production, and when labor is the abundant factor, labor-intensive methods will be chosen over capital-intensive methods that use relatively expensive technology. This can restructure an entire economy in the wrong direction. America’s shift from a manufacturing economy where scientific progress is most fruitful, to a service economy dominated by cheap labor fits the model of a country in long-term decline.

The United States needs to choose which path it wants to follow. America has historically been an economy short on labor. Until the frontier closed a century ago, there were never enough people to utilize all the land, resources, and business opportunities available. The emphasis was thus on boosting productivity, substituting capital for labor in both field and factory, to make the best use of the working population.

The one exception was the pre-Civil War South, which used slave labor. The slave-owners prospered on their plantations, but the South as a whole stagnated. To defend their reactionary system, their political leaders even tried to undermine the policies that promoted the

much more productive development of Northern industry and Midwest agriculture. The Civil War was as much a contest of economic systems as soldiers, and the Confederacy lost that “audit” in decisive fashion.

A guest worker program where applicants would have to qualify under a point system that places a priority on advanced skills, education, English proficiency, and experience in high-demand occupations would be a great improvement over past policies that simply rewarded people for their ability to cross an open border. However, the guest worker proposal is also being billed as a substitute for current illegal immigration, which means it would still be oriented mainly towards the low end of the labor pool. It would thus further extend into the future the failed policies of the past, only with government approval.

Certainly, the argument that a robust guest worker program would end illegal immigration is untenable. *The Wall Street Journal's* claim in a May 30 editorial that the “vote last week to halve the size of a guest-worker program for low-skilled workers is a big step in the wrong direction; skimping on visas will only lead to more illicit border crossings” implies that there should be a program large enough to soak up all the low-skilled foreigners who want to come to the United States. But even the original proposal for 400,000 guest workers per year would not accomplish that. And if the program was really “reformed” to favor higher-skilled workers— as it should be, then the millions of unskilled foreigners who still want to come here would not qualify. They would still seek to cross into the country illegally.

No system, regardless of its specific provisions, will work if it is still possible to come to America and operate outside the system. Thus a prerequisite for any program must be border security and interior enforcement. The border must be made as impenetrable as fencing, technology and patrolling can make it, and this must be the first priority of any immigration policy proposal. These steps are also vital to combat terrorism and drug trafficking, the latter being closely intertwined with people smuggling. But no static defense is perfect, so there must be rigorous enforcement inside the country as well, especially against business firms that hire or assist illegal aliens in maintaining themselves in the United States outside the law. Honest businessmen should welcome a crackdown on those rival firms that flaunt the law to gain an unfair competitive advantage. And the American public will not consider any immigration policy to be credible until they see actual results on the border.

The kind of economic progress that leads to higher living standards needs to be the objective of U.S. policy. To keep on that upward path, the flood of unskilled and impoverished aliens needs to be halted before they further drag down American living standards. National legislation, and its enforcement, must overrule the short-sighted inclinations of some in the business community who would push off on others the true cost of their operations. Maximizing output per worker, rather than merely the number of workers, is the right way to advance American civilization.

## Notes

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<http://www.census.gov/hhes/www/income/income.html>
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9. Robert E. Rector and Christine Kim, “The Fiscal Cost of Low-Skill Immigrants to the U.S. Taxpayer” Heritage Foundation, Special Report #14, May 22, 2007.  
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