Testimony on:

The Impact of Biden's Open Border on the American Workforce

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Chairman Good, Ranking Member DeSaulnier, and members of the subcommittee, thank you for the privilege of appearing today to discuss the impacts of illegal immigration on the labor market. I would like to make five main points:

- U.S. illegal immigration is in part a reflection of forces generating persistent global migration;
- Illegal immigration has an ambiguous impact on the employment of native-born workers;
- Unauthorized immigrants are often unable to hold positions that align with their skills, which limits the benefits to both them and the economy at large;
- This population has volatile labor turnover and employee retention, which is costly for employers; and
- The flow of synthetic opioids into the United States continues to rise, accompanied by an increase in their use and drug-related fatalities within our prime-age labor force.

Let me discuss these in turn.

The Economics of Illegal Immigrant Labor

Context

U.S. challenges with illegal immigration reside within the larger context of global migration patterns. While this migration is driven in part by strife and conflict – the mass migration of Ukrainians being the most recent, tragic example – it rests on an economic component as well. Large, developed nations in the west, notably European countries, Canada, and the United States, have large amounts of capital and advanced technologies that raise the productivity and real wages of labor. Population growth in these counties is quite low, however. In contrast, in other parts of the globe, the reverse is true: Population and labor force growth is rapid, but there is less in the way of physical and technological capital available.

It was once thought that these mismatches would be solved by global capital flows – western capital would flow to rapidly growing regions, raising real wages and the standard of living in the destination countries, while capital earnings would support the old-age consumption of aging populations in the west. For a variety of reasons – home-country bias in portfolios, poor enforcement of contracts, corruption, and others – this scenario has not come to fruition.

Unfortunately, economics abhors a vacuum. If the capital does not flow to the labor, the labor will flow to the capital. In the absence of opportunity in their home countries, labor is migrating to the opportunities provided by capital in the west. From this perspective, pressures on U.S. borders do not stem solely from regional political events, enforcement failures, or other factors, but also from an underlying pressure that has been, and will continue to be, a feature of the global economic landscape. Obviously, it would be preferable if this manifested itself solely as legal immigration, but that is not the current outcome.

More generally, nobody should favor illegal immigration. In what follows, I will lay out some of the implications of the presence of illegal immigrants in the labor market.

Ambiguous Impacts on Native-born Workers

Illegal immigrants are paid roughly 11 percent less than corresponding legal immigrants or native-born workers. This produces two effects. The first is the incentive of employers to substitute the cheaper illegal labor for the more expensive legal labor. This "job substitution" effect reduces the employment of legal labor.

At the same time, the lower pay for illegal workers can permit firms to produce more, sell more, and create more jobs. This "job creation" effect stems from the size of the savings produced by employing illegal immigrants and tends to benefit the employment of legal labor (native born or legal immigrants).

The net impact on legal labor is ambiguous. Even a small wage differential between illegal and legal workers creates the incentives for job substitution, but it won't produce the savings to generate jobs. Yet the larger the differential, the larger the savings, and the greater the likelihood that the job creation effect will outweigh the job substitution effect. (In recent work, Albert concludes that this is the correct characterization of the U.S. labor market.) Note further that these "benefits" for legal labor come at the expense of law-abiding firms that are not employing illegal immigrants.

Scale of the Issue

In the employment report for August, the Bureau of Labor Statistics estimated that there were 167.8 million potential workers in the labor force and 156.4 million payroll jobs. A variety of estimates places the number of illegal immigrants in the United States in the range of 11–17 million individuals. (See the Migration Policy Institute, the Federation for American Immigration Reform or the Center for Immigration Studies.) Assuming the average rate of labor force participation (62.8 percent) applies to this population, this implies between 6.9–10.7 million illegal workers, or a range of roughly 4–7 percent of all employment.

That calculation compares the stock of illegal immigrants with the stock of employed workers. An alternative would be to look at the recent flow of illegal immigration and compare that to the recent flow of new job creation in the labor market. In 2022, a record number of illegal immigrants – roughly 1 million – came to the United States (see FAIR). Again, assuming the average rate of labor force participation, this equates to roughly 630,000 new workers. During 2022, the labor market created 4.8 million new payroll jobs. By this calculation, illegal immigration accounted for approximately 13 percent of new hires that year.

These are clearly heroic estimates subject to great imprecision and should not be taken at face value. But they convey an important message: While illegal immigration is not the dominant force in labor market dynamics, it is far from zero. Illegal immigrants are a noticeable component of the aggregate labor market landscape. Moreover, in some sectors (especially agriculture) or states, their impact is much greater.

Mismatched Skills and Economic Loss

Illegal immigrants often do not work jobs that match their skills (the stereotypical example being a Ph.D. driving a taxi). Immigrant workers in the U.S. labor market are more likely to hold a job that requires less education than they possess; i.e., they are overqualified for that job. The probability of being overqualified declines with the length of stay in the United States and with English proficiency. Using 2019 data, the Migration Policy Institute found that the top two industries of employment for unauthorized immigrants were construction and accommodation/food services, arts, entertainment, and recreation. It indicated that 30 percent had at least an associate degree and that 54 percent spoke English well, if not fluently.

Mismatch is clearly a loss to the individual, but it is also a loss to the economy as a whole. If legal, workers would switch to higher-productivity jobs and raise the overall level of output in the economy. At present, health, business, and STEM-intensive industries all have a high number of job openings that cannot be filled by this population.

Volatile Labor Turnover and Retention

Legal and illegal immigrants of the same age, education, and other skills are not economic equivalents. One source of the wage differential for the illegal immigrant population is its tendency toward high job turnover, which makes these workers far less attractive to many employers. Even the fear of unknowingly hiring an illegal immigrant may have a spillover effect on the hiring of legal workers, as employers may be less likely to undertake the cost of hiring and providing training to employees that may quickly depart.

The Rise of Synthetic Opioids

A final phenomenon that has had a significant impact on prime-age labor supply and the labor market is the opioid epidemic. While the epidemic had its roots in another era, it is currently associated with the significant flow of fentanyl across the border.

Fentanyl is crossing the border at record rates. As announced in a May Customs and Border Patrol (CBP) press release, CBP and Department of Homeland Security agencies seized nearly 10,000 pounds of fentanyl over the course of two months. Note as well, however, that in 2022, 90 percent of fentanyl seizures occurred at legal ports of entry or vehicle checkpoints.

Fentanyl is part of the rise of synthetic opioid use increased overall opioid overdose fatalities by more than 200 percent between 2013 and 2021. In 2021 alone, synthetic opioid deaths reached 70,601, a 25 percent increase from the previous year. For Americans aged 18-45, the leading cause of death is fentanyl overdose.

The increased use of and deaths related to synthetic opioids has had a large impact on the labor force. In 2021, 96 percent of the 70,601 synthetic opioid caused deaths were in the prime-age labor force. AAF research found that between 2013 and 2021, opioid use accounted for the loss of more than 1.3 million workers. This translates to a cumulative loss of 7 billion work hours and $526.1 billion in reduced real output. Opioid use contributes to lower worker productivity, increased worker absenteeism, increased job openings through employee turnover, and reduced labor supply. Clearly, it also increases the likelihood that employers must turn to illegal labor to fill employment needs.

Thank you and I look forward to your questions.