

THE

**ECONOMIC
EFFECTS OF
IMMIGRATION**

IN SANTA CLARA COUNTY AND CALIFORNIA

LOUISE AUERHAHN
BOB BROWNSTEIN

SEPTEMBER 2004

WORKING PARTNERSHIPS USA

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DEDICATION

To the original Freedom Riders of 1961, who risked their lives for desegregation.

To the Immigrant Freedom Riders of 2003, especially the twenty-three who rode from San José, in appreciation for their courage and their continuing struggles.

To those future riders, whoever they may be, who will take the next step along the journey towards freedom, equality, and justice for all.

And in memory of Jim McEntee, Sr., a champion of immigrants, an agent of justice and reconciliation, and an inspiration to us all.

ACKNOWLEDGEMENTS

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ENDORSEMENTS

The Economic Effects of Immigration in Santa Clara County and California is endorsed by the following organizations:

The Diocese of San José

The Interfaith Council on Race, Religion, Economic and Social Justice

Laborers' International Union of North America Local 270

San Jose Association of Community Organizations for Reform Now (ACORN)

Service Employees International Union (SEIU) Local 1877

Services, Immigrant Rights, and Education Network (SIREN)

Telemundo Channel 48, KSTS

UNITE HERE Local 19

And by the following individuals:

Congressman Mike Honda

Jaime Alvarado, Mayfair Improvement Initiative

Tamara Alvarado, MACLA

Chris Block, Catholic Charities

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I. EXECUTIVE SUMMARY

This report investigates the effects of immigration on the Santa Clara County and California economies. Immigrants, like all residents, play multiple economic roles: they work in the labor force, purchase goods and services, pay taxes, use government services, invest money in businesses, and start their own companies.

When the combined effect of these various roles is examined, immigration is found to be a driving force fueling the economic growth of Santa Clara County and California over the past thirty years. Major findings of this report include the following determinations:

■ **Without immigrants, U.S.-born citizens would have to pay higher taxes.**

Immigrants pay more than their fair share of taxes; over his or her lifetime, the average immigrant pays from \$1,800 to \$80,000 more in taxes than he or she receives in government expenditures (excluding public goods like highways). If all first- and second-generation immigrants were to disappear, U.S. citizens would have to pay additional taxes to make up for the shortfall – about \$278 more per household per year.

In addition, since the majority of immigrants (about 70%) arrive in the U.S. as adults, having already received an upbringing and education in their own country, the United States in essence receives an influx of working-age adults without having to

spend the money to raise and educate them as children. The value of this human capital invested by their home countries, which the U.S. gets for free, is roughly \$1.43 trillion.¹

■ **Immigration neither lowers wages nor raises unemployment for U.S.-born workers.**

Study after study has found that immigration has no significant effect on either wages or unemployment rates of U.S.-born workers. In fact, over the last century, states with a larger immigrant population have consistently enjoyed lower unemployment rates. Several interconnected factors result in this robust finding.

First and foremost, the number of jobs in the economy is not fixed, but is a function of the demand for labor; since immigrants are consumers as well as workers, they increase this demand, thereby creating new jobs. If an increase in population automatically brought about unemployment, the fastest-growing regions would have the highest unemployment, which is clearly not the case.

Second, annual immigration is small relative to the total workforce, so any impact immigration could have on national employment or wages pales in comparison to the effect of larger forces such as economic cycles and government policy. Finally, immigrants tend to take different jobs than U.S.-born citizens, due in large part to differences in educational levels. Immigrants are concentrated at the lowest (less than high school) and highest (advanced degree) levels of education, while the majority of U.S.-born residents have educational levels between these two extremes. In short, immigrant labor is generally not a substitute for U.S.-born labor; instead, they complement each other.

■ **Without immigrant labor, many Santa Clara and California firms would have been unable to sustain their growth over the past three decades.**

The majority of immigrants come to the U.S. intending to work, and most do; immigrants' labor force participation rate is 68%, slightly higher than the U.S.-born rate of 66%. As a result, immigrant workers have become essential to our local and state industries. From 1970 to 1997-1999, the size of the California labor force nearly doubled, from 7.8 million to 15.8 million workers. Immigrant workers were responsible for 50% of this increase, spurring the California economy to grow roughly twice as fast as the U.S. as a whole. In Silicon Valley in particular, the emergence of the high-tech industry required large numbers of skilled workers, engineers, and scientists — more than were available in the existing workforce. This shortage would have severely constrained the region's economic growth, were it not for immigration. Even during hard times, immigration helps to cushion the impact of an economic downturn or recession by creating a more flexible labor force; flows of immigrant labor generally lessen during a recession, and recent immigrants or migrant workers may decide to return home, reducing the pressure on the remaining U.S. workforce.

■ **Immigration will be critical to sustain the baby boom generation (and beyond) in retirement.**

Both locally and nationally, the average age of the U.S. population is increasing. Between 1990 and 2000, the elderly population in Santa Clara County grew twice as fast as the county's total population growth, and this trend will accelerate as the baby boomer generation enters retirement. Domestically, this trend will lead to a lack of younger workers, who are needed both to provide necessary services to the growing elderly population and to support Social Security.

Immigration can help solve both these problems, because immigrants have no "baby boom" generation, and most arrive in the US during their prime working years; the average age of a new immigrant is 28, and 95% are below retirement age. Immigrants can therefore provide the workforce to support Baby Boomers in retirement and make up for the reduction in the working-age population. They are also essential to the future of Social Security. The average immigrant-headed household in California contributes a net \$2,679 annually to Social Security — \$539 more than the average U.S.-born household.

■ **Immigration creates jobs for U.S.-born workers.**

Most firms require workers at many different levels of skill, experience and education in order to function and grow. Increasingly, these jobs include some positions that US-born workers cannot or will not fill. If they are unable to find workers for these positions, firms typically will reduce their entire domestic workforce, either by substituting capital for labor through increasing automation, or by moving plants or outsourcing work to other countries. Since the immigrant workforce is complementary to the domestic workforce in terms of education and skill levels, immigrants can often fill the positions that U.S.-born workers do not. The net result is that far from taking away jobs or reducing wages for U.S.-born citizens, immigration helps to create new jobs for U.S. workers and to prevent existing jobs from being sent overseas.

PROFILE OF IMMIGRANTS IN SANTA CLARA COUNTY

(Total Population 1,653,545)

- 598,683 total immigrants live in Santa Clara County, making up 36% of population

19,264 are new immigrants (came to the U.S. within the past year):

New immigrants make up 1.2% of the population

291,698 are recent immigrants (came to the U.S. in 1990 or later):

Recent immigrants make up 18% of the population, the highest of any California county

- 46% of immigrants have become U.S. citizens

- **BIRTHPLACE OF IMMIGRANTS:**

58% from Asia

27% from Latin America

10% from Europe

2.9% from Northern America

1.4% from Oceania

0.7% from Africa

- **IN 1990, IMMIGRANTS MADE UP:**

25% of Silicon Valley's total workforce

30% of high-tech workers

32% of scientists and engineers in high-tech

- In 2003, immigrants made up about 45% of the county's workforce

- **TOP 10 INDUSTRIES WHERE IMMIGRANTS WORK:**

1) Manufacturing of electrical machinery [including computer hardware]

2) Business services

3) Other retail trade

4) Educational services

5) Manufacturing of machinery (except electrical)

6) Construction

7) Other professional services

8) Wholesale trade

9) Eating and drinking places

10) Transportation

- High-tech Silicon Valley companies founded by Chinese or Indian immigrants: 25% to 33%

(continued)

PROFILE OF IMMIGRANTS IN SANTA CLARA COUNTY *continued*

- High-tech Silicon Valley companies with Chinese or Indian immigrant CEOs: 29% (as of 2000)
- Total annual sales by these companies: \$19.5 billion
- Jobs created by those companies: 72,839
- **SELECTED SILICON VALLEY COMPANIES FOUNDED BY IMMIGRANTS:**
 - Hotmail: Bought by Microsoft for \$400 million
 - Intel: \$27 billion revenue, 7,000 employees in Silicon Valley, 86,100 companywide
 - JDS Uniphase: \$3.2 billion revenue, 19,948 employees
 - Sanmina Corp. (now Sanmina-SCI): \$4.05 billion revenue, 48,774 employees
 - Soletron: \$18.7 billion revenue, 60,000+ employees
 - Sun Microsystems: \$18 billion revenue, 43,700 employees
 - Yahoo!: \$717 million revenue, 3,000 employees

(Sources: 2002 American Community Survey; Quarterly Statistical Data of Public Assistance Families in the County of Santa Clara, July 1, 2003; Annalee Saxenian, "Brain Circulation: How High-Skill Immigration Makes Everyone Better Off." , The Brookings Review, Vol. 2 No. 1, Winter 2002, 28-31.; San Jose/Silicon Valley Business Journal Book of Lists 2002; Basic Current Population Survey, Dec. 2000, Dec. 2001, Dec. 2002.; : Laura E. Hill and Joseph M. Hayes, "California's Newest Immigrants." California Counts: Population Trends and Profiles, Vol. 5 No. 2, Nov. 2003. Public Policy Institute of California.)

II. INTRODUCTION

Visit any neighborhood in Santa Clara County, and you are likely to find a Mexican taquería side by side with a Vietnamese pho shop. Supermarkets carry not just lettuce and tomatoes, but also tomatillos and bok choy. When the high-tech workers downtown take their lunch breaks, the streets come alive with a mix of people from all parts of the world. And odds are good that the technology company they work for was itself started by an immigrant or has an immigrant as CEO.

Immigrants are an integral part of our region's economy. As workers, as consumers, and as owners of businesses small and large, they have made an indelible mark on every industry in the Valley. Yet surprisingly little accurate information is available about the economic effects of immigration in Santa Clara County. As a result, policy debates are too often based on misinformation or a distorted view of immigration, leading to decisions that do not make good economic sense.

For example, heightened militarization of the U.S.-Mexico border begun in 1986 was intended to reduce the number of undocumented immigrants entering the U.S. But proponents of this policy did not understand the economic forces on each side of the border that drive immigration, and in particular did not realize the extent of the circular migration in which Mexican migrants came to the U.S. to work several months a year and then returned home.

When crossing the border became more difficult, the risk and expense of traveling back and forth each year could no longer be justified for many migrant workers, so they settled in the United States permanently. As a result, far from reducing undocumented immigration, border militarization has greatly increased the number of undocumented immigrants living in many California cities and towns, especially in the San Joaquin Valley. A better understanding of the economic forces behind migration might have helped to prevent the implementation of such a costly and counterproductive policy.

This report looks at the roles immigration plays in the Santa Clara and California economies and examines what effects, positive or negative, immigration has had in the recent past and may bring about in the future. It is meant as a starting point, an attempt to summarize what is known about a tremendously complex topic.

Of course, immigration is not merely an economic phenomenon, but a human one. Public and policy discussions of immigration must also consider social, cultural, legal, and moral questions.

This report, however, will confine itself primarily to the economic sphere.

In addition, the category “immigrant” includes an enormously varied collection of people with diverse occupations, income levels, family situations, nationalities, ages, genders, and residency status. Although much of this report discusses “immigrants” as a group, it is crucial to remember that no generalization can accurately describe all immigrants.

The remainder of this report will:

- present the basic facts about immigrants, population and employment,
- analyze the taxes paid and benefits (including

welfare) used by immigrants, and the resulting impact on local, state and federal government,

- examine the roles played by immigrants in the workforce, now and in the coming decades,
- look at the driving forces behind immigration,
- investigate whether the entry of immigrants into the labor force harms U.S.-born workers, and
- profile how Silicon Valley’s growth has been shaped by the presence of skilled immigrants.

As the heart of Silicon Valley, Santa Clara County is the epicenter of the global economy. If we are to successfully negotiate our place in this economy and ensure that it continues to grow, it is crucial that we understand and learn to make the best use of the enormous resources and challenges presented by immigration.

III. MYTHS AND FACTS ABOUT IMMIGRATION

Before examining the economic impact of immigration on California, it is necessary to have a basic understanding of the immigrant population in the state, how it has changed over the years, and what the future of immigration may look like. Immigration has always been a topic distorted by xenophobia and shrouded with mythology, leading to widely held preconceptions that may not be accurate. This section addresses a few of the popular beliefs about immigration to California and the U.S. that are most prevalent today.

MYTH: IMMIGRATION TO THE U.S. AND TO CALIFORNIA IS AT AN UNPRECEDENTED LEVEL – MUCH HIGHER THAN IN THE PAST.

FACT: Immigrants make up a far smaller proportion of the U.S. population today than they have in much of our nation's past. From 1860 until 1920, 13 to 15% of the U.S. population were immigrants. But that proportion fell precipitously from 1920 to 1970, and only in the last few decades has it begun to rise back towards historic norms. In 2000, only 11% of the population were immigrants.² (See Figure 1.1.)

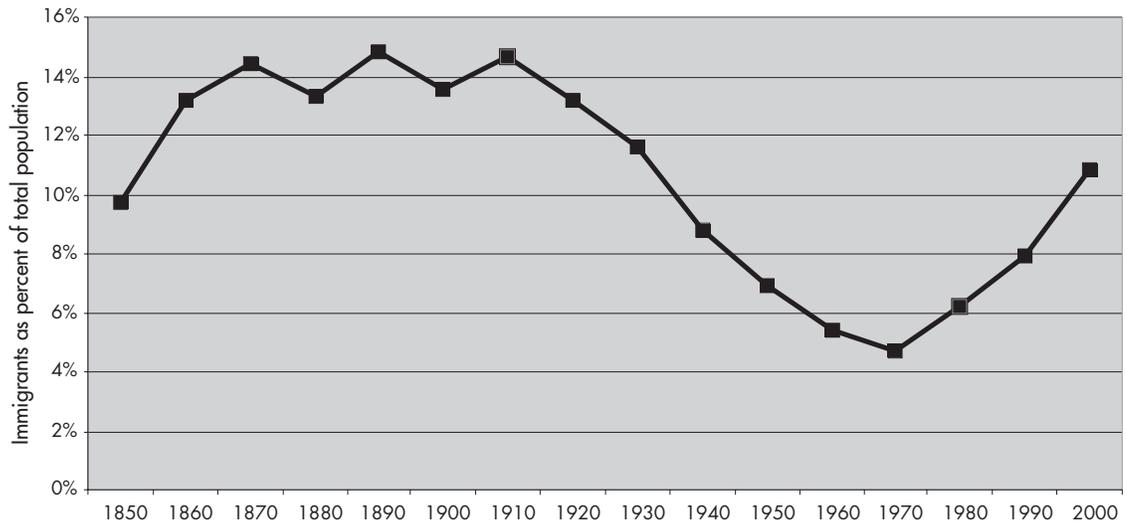
Immigration in California has followed a similar,

though not identical, pattern; in 1850 immigrants made up 39% of the state's people, compared to only 26% in 2000.³ (See Figure 1.2.)

MYTH: IMMIGRATION TO CALIFORNIA IS INCREASING RAPIDLY AND WILL CONTINUE TO GROW.

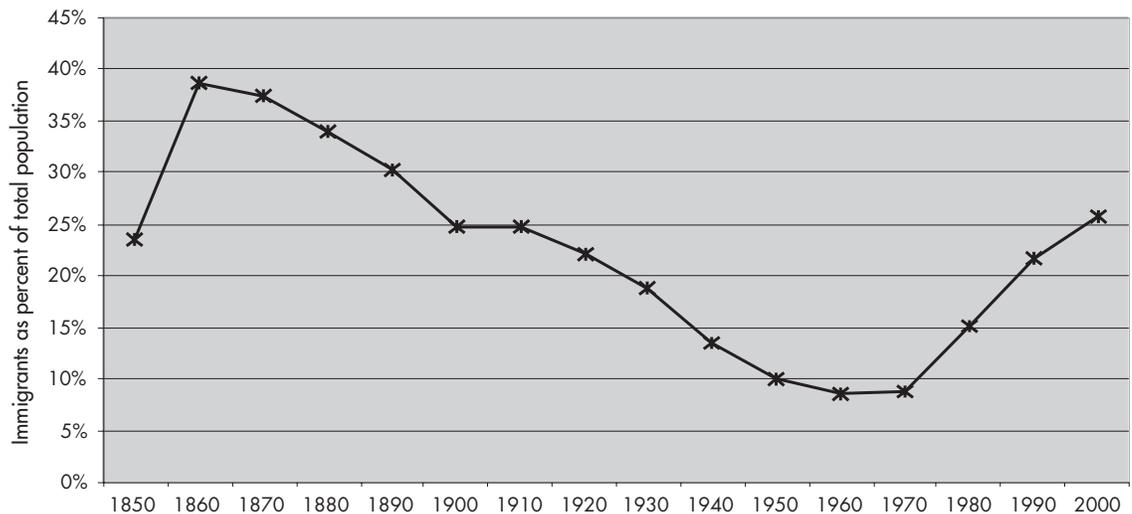
FACT: The immigrant population of California grew quickly from 1970 to 1990. But by 2000 the rate of growth had begun to slow, and it is projected to level off between 2000 and 2020, with immigrants holding steady at about 26% of the population.⁴ (See Figure 1.2) Of the immigrants now living in

FIGURE 1.1. IMMIGRANT POPULATION OF THE UNITED STATES, 1850-2000



Source: 2000 data calculated from <http://www.census.gov/population/socdemo/foreign/ppl-160/tab01-01.xls>.
All other data from <http://www.census.gov/population/www/documentation/twps0029/tab01.html>.

FIGURE 1.2. IMMIGRANT POPULATION OF CALIFORNIA, 1850-2000



Source: 2000 data from <http://www.census.gov/population/socdemo/foreign/ppl-145/tab04-1A.xls>.
All other data from <http://www.census.gov/population/www/documentation/twps0029/tab13.html>.

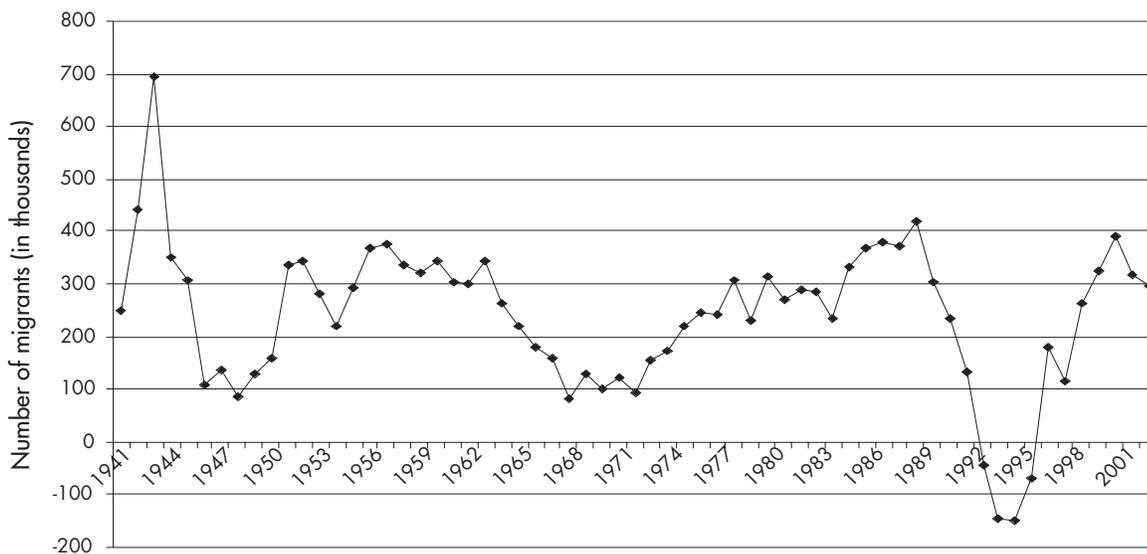
California, 1.7 million came to the U.S. between 1985 and 1990, but only 1.4 million came between 1995 and 2000 – even during the height of the economic boom.⁵

If we look at net annual migration to California, there is even less evidence of a long-term increase in immigration. Net migration to the state fluctuates greatly from year to year; in 2001 it was at a high point relative to the previous decade of 389,000 people per year, but this is no different from similar high-water marks in 1985-1990, 1951-1963, or 1942-45. And over the past decade, net migration actually hit an historic low. From 1993 through 1996 the state experienced *negative* net immigration; that is, more people left the state than moved here. And since the 2001 peak, net migration has fallen, down to 296,000 in 2003.⁶ (See Figure 1.3) Net migration includes both domestic and international migrants, so this measure accounts for the fact that international immigrants may arrive in California initially but then move to other states, or return home. It also

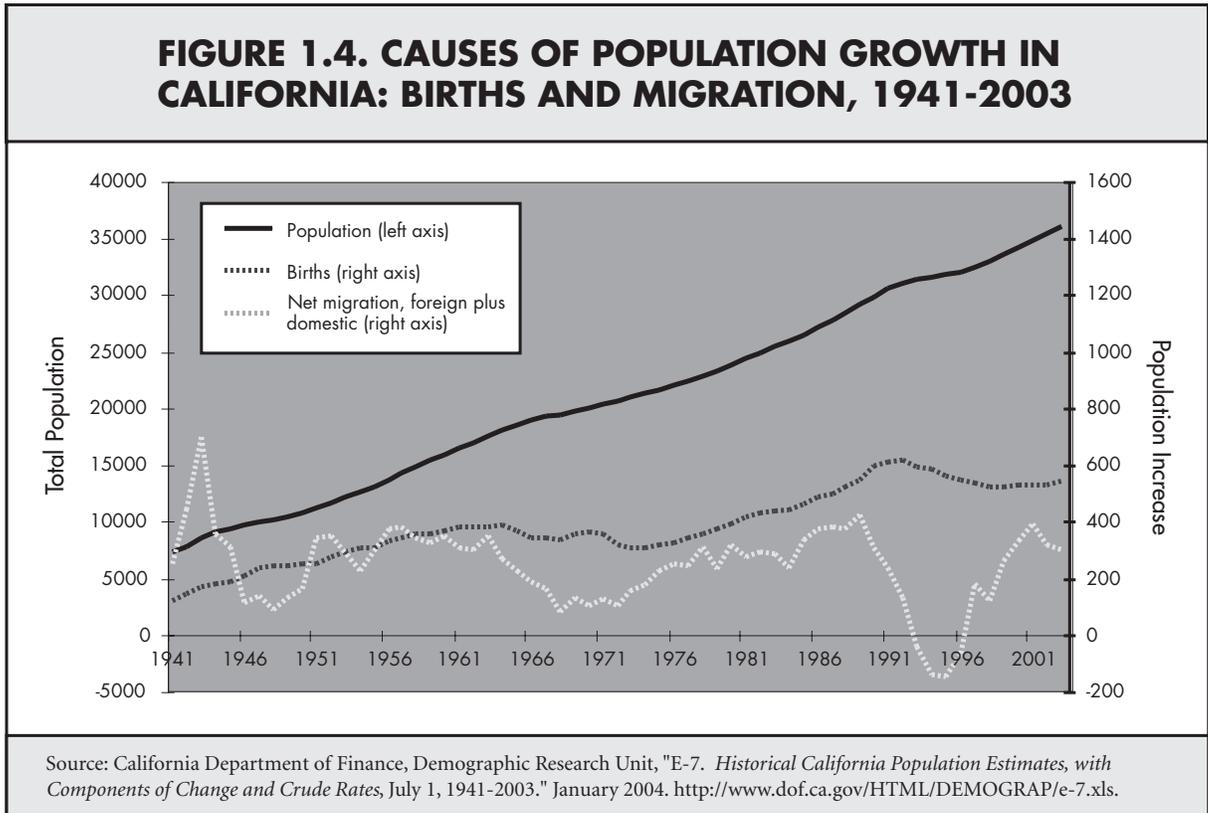
includes nonimmigrants who move to or from California.

Finally, the proportion of immigrants coming to California is declining in favor of other states. California remains by far the most popular destination state for immigrants to the U.S. But the percent of foreign-born U.S. residents living in California peaked in 1994 at 34% and has fallen every year since, down to 30% in 1999. This marks the first time in the 20th century that California's share of the foreign-born population decreased.⁷ California's popularity as a destination for new immigrants is falling even faster. In 1980, 32% of new immigrants nationwide (those who had arrived in the U.S. less than 10 years ago) lived in California, and by 1990 this had risen to 38%. But in 2000 the state's share of new immigrants fell dramatically to 25%.⁸ Immigration patterns in the 21st century may look quite different than the last several decades; if projections hold, fewer immigrants will come to California, and more will leave California for other states.⁹

FIGURE 1.3. NET MIGRATION (FOREIGN AND DOMESTIC) TO CALIFORNIA, 1941-2003



Source: California Department of Finance, Demographic Research Unit, "E-7. Historical California Population Estimates, with Components of Change and Crude Rates, July 1, 1941-2003." January 2004. <http://www.dof.ca.gov/HTML/DEMOGRAP/e-7.xls>.



MYTH: IMMIGRATION IS RESPONSIBLE FOR THE GROWTH OF CALIFORNIA'S POPULATION.

FACT: Although immigration certainly contributes to population growth, births account for the bulk of the new additions to the state's population. In 2003, there were 540,000 births and 296,000 net immigrants, for a total of 836,000 new Californians added in 2002. (With 238,000 deaths – which includes both immigrants and U.S.-born citizens – the net population increase in 2003 was 598,000.)¹⁰ This means that immigrants accounted for 35% of all new Californians – a considerable proportion to be sure, but hardly the sole driver of population increase in the state. (See Figure 1.4) If we look at the previous decade, the foreign-born population in California grew by 2.322 million from 1990 to 2000¹¹, while there were 5.657 million births during the same period.¹²

The impact of immigration on population growth is

often made to seem larger by the inclusion of children and grandchildren of immigrants. However, when examining the composition of the U.S. population, there seems little logic in discriminating between Americans whose grandparents were immigrants and those whose great-great-great-grandparents were immigrants. If the descendants of immigrants are included, then, of course, essentially all of California's population growth is the result of immigration; in the 2000 U.S. Census, only 1.0% of the state's population identified as Native Americans¹³, with the remaining 99% presumably descended from immigrants.

MYTH: MOST OF THE PEOPLE WHO MIGRATE TO CALIFORNIA COME FROM OUTSIDE THE U.S.

FACT: From 1995-2000, California received about as many new residents from internal migration (U.S. residents moving to a different state) as it did from international immigration. Between 1995 and 2000,

1.41 million people came to California from abroad. But a slightly higher number of people – 1.45 million — moved to California from other U.S. states.¹⁴ So domestic migration had as much influence on the state's population growth as did international migration. Yet virtually all state policy measures look only at international migrants.

MYTH: MANY IMMIGRANTS DO NOT WORK.

FACT: Immigrants have high rates of labor force participation. Immigrants in the United States participate in the labor force at approximately the same rate as U.S.-born residents; in 2001, immigrants had a slightly higher participation rate than U.S.-born citizens, with 68% of immigrants in the labor force versus 66% of U.S.-borns (age 16 and over).¹⁵

When broken down by race/ethnicity, we find that black immigrants have the highest participation rate (75%) and white immigrants have the lowest (59%), while 70% of Hispanic/Latino immigrants and 67% of Asian immigrants are in the workforce.¹⁶ In other words, Black, Hispanic/Latino, and Asian immigrants are all as likely or *more* likely to be working than are U.S.-born Americans. Undocumented immigrants are also more likely to be working, with a labor force participation rate of around 75%.¹⁷

Immigrants in California have a similarly high likelihood of working. According to the Public Policy Institute of California, approximately 90% of immigrant men from Latin America ages 25-54 are in the labor force in California.¹⁸ For Asian immigrants, over 90% of immigrant men ages 25-54 are in the labor force for most nationalities. (Southeast Asians, many of whom are refugees, are less likely to participate in the labor force.) Labor force participation varies more widely for immigrant women, ranging from more than 85% for Filipinas, to about 70% for Central/South American women, to about 50% for Japanese women.¹⁹

These high rates of labor force participation mean

that immigrant workers play a large role in the state and national economies. Immigrant workers accounted for 49% of the explosive growth in the nation's workforce between 1996 and 2000;²⁰ by 1997-1999, 3 out of every 10 workers in California was an immigrant.²¹ The dependence of California's economy on the immigrant workforce is discussed later in this paper.

MYTH: U.S. LABOR MARKETS ARE FLOODED WITH UNDOCUMENTED IMMIGRANTS.

FACT: As of 2002, an estimated 2.4 million undocumented immigrants reside in California, making up only 7% of the state's population and a quarter of the state's immigrants.²² Locally, one estimate puts the number of undocumented immigrants in Santa Clara County at roughly 100,000.²³ (The undocumented population is difficult to measure, so all statistics pertaining to this population should be treated as rough approximations only.)

Nationwide, about 48% of undocumented immigrants are adult men (18 and over), 34% are adult women, and 17% are children. Nearly all undocumented men (96%) are in the labor force, while about 62% of undocumented women are employed or looking for work.²⁴

Undocumented immigrants make up only 3 to 4% of the nation's workforce, so in most major industries their presence and effects are negligible. One study estimates 1.2 million undocumented workers in manufacturing, 1.3 million in services, 600,000 in construction and 700,000 in restaurants.²⁵ But only in private household services (roughly 25% undocumented) and business services (roughly 15%) do undocumented workers make up more than 10% of employees.²⁶

The undocumented workforce does have a major impact on one industry, agriculture: there are an estimated 1 million to 1.4 million unauthorized agricultural workers in the U.S., making up roughly half

of the agricultural workforce.²⁷

Since undocumented immigrants are to some extent concentrated in particular localities, in these areas the proportion of the workforce that is undocumented will of course be higher. This may be particularly evident in towns where the major industry is agriculture.

MYTH: MORE IMMIGRATION WILL MEAN MORE POVERTY.

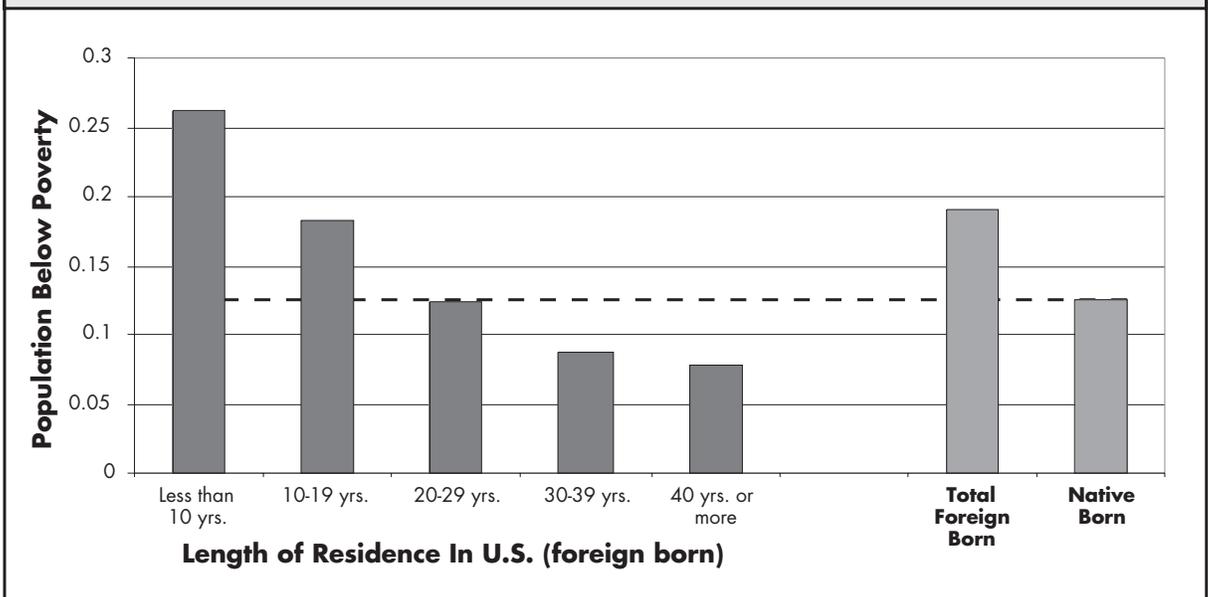
FACT: It is true that new immigrants are more likely than U.S.-born citizens to be in low-income households, although the difference in poverty rates between immigrants and the U.S.-born is not as large as it is sometimes portrayed to be. 19% of immigrants in California were below the poverty line in 2000, compared to 12% of U.S.-born residents.²⁸

However, this difference disappears as immigrants stay here longer. Immigrants who arrived less than

ten years ago have a 26% poverty rate, but this number drops steadily, and immigrants who have been in the U.S. for thirty years or more actually have lower poverty rates than do U.S.-born residents.²⁹ (See Figure 1.5).

It is also important to recognize that the people who choose to come to the United States are rarely the poorest of the poor. Generally, it is middle-income citizens, not the lowest income brackets, who emigrate from their home country in search of work. And the largest proportion of economic immigrants do not come from the poorest countries; if they did, the majority of today's immigrants would be arriving from Africa. Instead, they come from countries that are undergoing rapid economic change in the course of development – that is, countries which are already well on their way to developing. Immigrants are also much more likely to go to countries which already have strong economic, political, and cultural ties with their home country. Thus, even though Mexico is relatively wealthy, with one of the highest per capi-

FIGURE 1.5. POVERTY RATE OF CALIFORNIANS BY IMMIGRATION STATUS AND LENGTH OF RESIDENCE, 2000



Source: Dowell Myers and John Pitkin. 2001. Demographic Futures for California. Population Dynamics Group, School of Policy, Planning, and Development. University of Southern California. Los Angeles, California.

ta GDPs of any Latin American country, it sends by far the most immigrants to the U.S. because of its position in the global market economy and its close ties to the U.S.³⁰

Claims of a link between immigration and poverty

may also reflect the inaccurate belief that immigration harms the state's economy and is therefore linked to an overall increase in poverty – i.e., that immigration contributes to poverty among U.S.-born citizens. This contention will be dealt with in more depth in the remainder of this paper.

IV. IMMIGRANTS IN THE ECONOMY

The primary aim of this report is to examine how the economy of Silicon Valley and, more broadly, of California and the U.S. have been influenced by the arrival of immigrants and the growth of immigrant communities. Immigrants affect the economy in many ways. They pay taxes and use government services. They participate in the economy as workers, consumers, business owners, entrepreneurs and investors of capital. And they create international networks that enable the U.S. to benefit from ideas, technology, markets and capital available in foreign nations. As will be seen, the net impact of immigration on economic growth in Silicon Valley and on California is overwhelmingly positive, and indeed, many of our major industries would never have developed and could not survive today were it not for immigration.

FISCAL IMPACTS

Perhaps the most obvious economic contribution made by immigrants is the taxes they pay. Like any resident, an immigrant pays taxes to federal, state, regional and local governments, and benefits from the services provided by those governments.

How do the taxes paid and benefits received by

immigrants compare to those of U.S.-born residents? One way of measuring this is to look at the *net fiscal contribution* made by immigrants. The net fiscal contribution (also known as “net fiscal incidence” or “fiscal impacts”) is a measure of the total taxes paid minus the benefits received; a positive net fiscal contribution means that an individual is giving more to

the government than they get back, while a negative total means that the benefits one receives cost more than the taxes one pays.

IMMIGRANTS ARE A “FISCAL BARGAIN” FOR THE UNITED STATES

Estimates of immigrants’ net fiscal contribution vary, but nearly all agree that the lifetime total is positive; that is, immigrants pay more in U.S. taxes than they consume in government benefits.³¹ The average immigrant contributes a net of anywhere between \$1,800 and \$80,000 to government coffers over his or her lifetime.³²

In addition, over 70% of immigrants arrive in the U.S. as adults, meaning that their host country bore the cost of raising and educating them as children. Since some of the most expensive public services in this country are provided to children, including education and numerous social services, working-age adult immigrants bring an enormous fiscal advantage to the United States. The value of this human capital invested by their home countries – which the U.S. gets for free – is roughly \$1.43 trillion.³³

Far from being a costly burden, immigrants are a net source of income for the United States government. One study calculated that each new immigrant, together with all future descendants, will have a positive fiscal contribution totaling \$80,000 (average present value); another estimated that without first- and second-generation immigrants, every U.S.-born household would have to pay an average of \$278 more in taxes each year.³⁴ Even the conservative Cato Institute, after analyzing dozens of studies, concluded that “immigrants are a fiscal bargain for American taxpayers.”³⁵

UNBALANCED FEDERAL FISCAL POLICY MAY MAKE IMMIGRANTS MORE COSTLY TO LOCAL GOVERNMENT

So why does the perception persist that immigrants are costly? In part this is simply due to misinforma-

tion. But there is also an imbalance between state and local governments versus the federal government when it comes to immigrants’ fiscal impact.

Immigrants pay relatively more taxes to the federal government, but state and local governments incur more of the cost of providing benefits to immigrants³⁶ – and the burden shouldered by states and localities is increasing as the federal government devolves more responsibilities onto the states.

One study estimates that in 1994, the federal government spent \$102.5 billion on benefits and services for immigrants and their immediate descendants, and received \$153.3 billion in taxes, for a net gain of \$50.9 billion. But state and local governments spent a combined total of \$88.8 billion and received \$61.5 billion in taxes, leaving them short by \$27.4 billion.³⁷ The total impact of immigrants on national finances is still positive; if federal, state, and local budgets are combined, government coffers gain a net surplus of \$23.5 billion. But the federal government receives all of this surplus and then some, leaving states and localities in the hole. Thus, although immigrants do in fact pay their share of taxes, from a local perspective it may look as if immigrants consume more than they pay.

This unbalanced distribution of funding and responsibilities creates excessive costs for states and communities with large immigrant populations. But the root of this problem is not immigration; it stems from flaws in our country’s tax structure and its system for provision of social services.

The following sections take a detailed look at the taxes immigrants pay and the benefits they receive.

TAXES

Conservatively, in 1997 immigrants paid an aggregate \$133 billion in taxes to all levels of government.³⁸ (This is calculated differently than the figures above, with the most notable difference being that it includes only immigrants themselves, not

their immediate descendants.) This number includes only taxes paid by individuals, not corporate taxes, and excludes the indirect effects of immigration that result in additional tax contributions. For example, some immigrants start new businesses which then pay taxes: the Cato Institute estimated that immigrant-founded businesses generate at least \$29 billion in tax payments annually.³⁹

On average, immigrants pay less tax per person than do U.S.-born citizens, for the simple reason that immigrants tend to have lower incomes. In 1994, immigrants and their concurrent descendants paid an estimated average of \$1,520 annually in state and local taxes and \$3,793 in federal taxes, for a total of \$5,313 taxes paid per person. U.S.-born citizens paid \$1,941 in state and local taxes and \$5,008 in federal

UNDOCUMENTED IMMIGRANTS PAY THEIR WAY

Since their incomes are likely to be far lower, undocumented immigrants generally pay less taxes than legal residents or citizens. But they also receive far fewer government services. When we add up both sides of the balance sheet, undocumented immigrants more than pay their way.

TAXES

Undocumented immigrants pay sales taxes and similar levies at the same rate as U.S.-born citizens, adjusting for their lower incomes. And contrary to some popular beliefs, many undocumented immigrants pay income tax and other payroll taxes at the same or higher rates than U.S.-born citizens.

Undocumented immigrants pay income tax in two main ways. First, if they are on the payroll of their employer (usually with a falsified Social Security number), then their taxes are automatically deducted from their paycheck. A 1990 study found that undocumented immigrants paid \$2.7 billion annually in Social Security tax and \$168 million in unemployment insurance – both payroll taxes.⁴² And the undocumented are less likely to file for a tax refund, so they end up paying substantially more in income taxes than documented workers at the same income levels.⁴³ Second, undocumented immigrants can pay taxes using the individual taxpayer identification number (ITIN), created by the IRS in 1996. Since the ITIN program began, 5.3 million people have signed up for a number in order to file their income taxes.⁴⁴ Many undocumented immigrants pay income taxes because they want to comply with U.S. law as much as possible, to avoid risk of deportation and increase chances of obtaining legal status.⁴⁵

BENEFITS

Undocumented immigrants use far fewer public benefits than documented immigrants or U.S.-borns, in part because they prefer to avoid contact with government offices, and in part because they are ineligible for many programs, including Social Security, Medicare, most health insurance programs, food stamps, and virtually all forms of cash aid. This is true even though they pay for many of these services through fees and taxes, as discussed above. For example, many undocumented immigrants have Social Security taxes deducted from their paychecks, yet they are not eligible to collect Social Security payments. The percentage of undocumented immigrants receiving most means-tested benefits (except for emergency Medicaid), as well as Social Security and Medicare, is therefore very close to zero.^{46, 47}

taxes for a total of \$6,949.⁴⁰ The average immigrant or concurrent descendant of an immigrant thus paid about 24% less in taxes than the average U.S.-born resident.

When these payments are compared to immigrants' incomes, however, it is found that immigrants pay roughly the same proportion of their income in taxes as do U.S.-born citizens. For example, the mean household income for immigrant households in California in 1995 was \$35,903; U.S.-born households' income was \$47,884.⁴¹ Immigrants' income was thus 25% less than U.S.-born households' income, comparable to the 24% lower taxes paid by immigrants. Immigrant households contribute a smaller dollar amount of taxes on average, but they generally pay the same (or higher) percentage of their income than do the U.S.-born.

PUBLIC EXPENDITURES

MOST GOVERNMENT SPENDING GOES TO JUST A FEW PROGRAM AREAS

To determine the public cost of immigration, we need to look at all the major public programs that serve people on an individual or family basis. Aside from defense, the national debt, and the justice system (police, prisons, etc.), most government spending is concentrated in just four programs: Social Security, Medicare, Medicaid, and education.

In the annual U.S. government budget, Social Security received \$452 billion federal funding, Medicare received \$228 billion federal funding, Medicaid and SCHIP/Healthy Families received \$151 billion federal funding and \$24.7 billion California state funding, and education received \$48 billion federal funding and \$41.7 billion California state funding. These four areas account for well over a third of all federal, California state and California local government expenditures, and nearly three-quarters of all spending on individual benefits.⁴⁸ (We will ignore "collective" programs like defense and the justice system; adding one more person to the population does

not substantially change the cost of these programs, and the per capita cost is essentially the same for all residents.)

Expenditures on other individual transfer programs are tiny compared to these four areas, but we will still look at a few of these programs: TANF and General Assistance ("welfare"), food stamps, Supplemental Security Income (SSI), and unemployment benefits. Keep in mind, however, that these five programs combined make up only about 13% of spending on individual benefits, and just 6.6% of total government spending (federal, California state, and California local spending, 1995.)⁴⁹

TOTAL PUBLIC EXPENDITURES ON IMMIGRANTS AND ON U.S.-BORN CITIZENS

Simon (1995) drew on a wealth of previous studies combined with Census data to come up with a rough estimate of annual per capita expenditures from each program for immigrants and U.S.-born residents. This calculation is based on older data, but it is the most complete reckoning available. Simon's estimates are as follows:

- Social Security: \$1,305 per U.S.-born and \$261 per immigrant
- Medicare: \$566 per U.S.-born and \$113 per immigrant
- Medicaid: \$627 per U.S.-born and \$752 per immigrant
- Public education: \$923 per U.S.-born and \$536 per immigrant
- Unemployment: \$138 for both U.S.-borns and immigrants
- Means-tested cash aid: \$260 per U.S.-born, \$404 per immigrant (includes AFDC, food stamps, SSI, and General Assistance)

When these estimates are combined, each U.S.-born citizen costs taxpayers \$3,819 annually, while each immigrant costs \$2,204. The benefits received by immigrants are thus 58% of those received by U.S.-borns. Recall from the previous section that the aver-

age immigrant household in California pays 76% of the taxes paid by U.S.-borns. While these two ratios are not directly comparable, they imply that immigrants pay more than their share of taxes compared to the benefits they receive – in other words, that U.S.-born citizens benefit from a surplus of tax dollars paid by immigrants.

More recent data from the 2000 U.S. Census confirms this finding. When income from public assistance (welfare and related cash benefits), from Social Security, and from Supplemental Security Insurance (SSI) are combined, the average U.S.-born Californian gets a total of \$1,212 annually from these programs. The average foreign-born Californian receives a total of \$866 per year, 29% less than U.S.-born citizens. Immigrants who are not U.S. citizens got even less, with \$474 annually.⁵⁰

In sum, U.S.-born taxpayers receive a net benefit from immigration. The total net fiscal contribution made by immigrants – the amount of surplus accruing to U.S.-born taxpayers – has been estimated at somewhere between \$23 billion and \$33 billion each year.⁵¹

WHY IMMIGRANTS ARE CHEAPER: THE AGE STRUCTURE OF IMMIGRATION

Why do immigrants receive less benefits per capita than U.S.-born residents? Eligibility requirements contribute to the difference. But in large part, the answer has to do with the demographics of those who choose to immigrate.

Most public expenditures for individuals are targeted towards children and the elderly. The largest non-defense items in the federal budget are Social Security and Medicare, which together make up 34% of federal spending.⁵² In California, education accounts for 57% of General Fund expenditures – over half the total state budget.⁵³

But most new immigrants do not make use of these programs, because they arrive in the U.S. as working-age adults. The average age of a new immigrant is

28,⁵⁴ and 79% of all immigrants in the U.S. are between the ages of 18 and 64, compared to just 60% of U.S.-born residents.⁵⁵ This means that the United States does not pay for most immigrants' education, health care, or other needs as children, and does not pay to support them in their old age until they have worked in this country for thirty to forty years.

As a result, immigrants are much less likely than U.S.-born citizens to receive Social Security payments or Medicare benefits – two of the most expensive government services. In California in 1994, only 15% of immigrant-headed households participated in Social Security, and 16% in Medicare, while participation rates for U.S.-born households were 24% and 23% respectively.⁵⁶ When compared to U.S.-born citizens at equivalent income levels, immigrants are also much less likely to receive Medicaid or SCHIP (Healthy Families) coverage. In 2001, 13% of low-income noncitizen adults and 24% of children nationwide were on Medicaid or SCHIP, compared to 22% of low-income U.S.-born citizen adults and 46% of their children.⁵⁷ Similarly for food stamps, in 2002 only 45% of noncitizens eligible for food stamps actually received them, considerably below the 59% of all eligible beneficiaries who received food stamps.⁵⁸

In addition, immigrants are often not eligible for many government-provided payments that U.S.-born citizens receive, especially in the wake of legal changes over the past decade. In California, undocumented immigrants are barred from participating in a number of public programs, including Social Security, Medicare, Medi-Cal, Healthy Families, In-Home Supportive Services, Food Stamps, and CalWORKS. Even immigrants who are eligible may be less likely to apply for benefits, out of fear that they could be deported under the “public charge” doctrine if they do so. Although this fear is often unfounded under current law, the perception persists in many immigrant communities. And since Social Security benefits are based on income earned while in the U.S., immigrants who spent part of their lives working in other countries receive smaller payments.

(Immigrants who have not worked in the U.S. for at least ten years cannot receive any Social Security retirement benefits, unless they come from one of a handful of primarily European countries which have reciprocal Social Security agreements with the U.S.)

The impact of immigrants' lesser eligibility and application rates is particularly evident in retirement payments, which are by far the most costly federal programs aside from defense. In the U.S. Census Bureau's 1976 Survey of Income and Education (SIE), U.S.-born families averaged \$922 per year in retirement payments from the government (Social Security, Medicare and Medicaid for the aged.) But immigrant families who had been here less than five years received just \$92 per year, and even those here for 16-25 years got only \$520 annually in retirement.⁵⁹ In fact, as will be discussed below, immigrants are essential to making Social Security work.

WELFARE AND RELATED PROGRAMS

As we have seen, welfare and related payments comprise a very small fraction of total government spending on social programs. In 2002 the federal budget included \$452 billion for Social Security and only \$17.4 billion for TANF. Locally, public assistance payments in Santa Clara County totaled \$74 million in 1999, while Social Security payments reached \$1.2 billion; the cost of public assistance was thus only 6% of what we spent on Social Security.⁶⁰

Therefore, if we are looking at the cost of services or trying to find ways to cut government spending, the welfare benefits being paid to immigrants (or, for that matter, to U.S.-borns) are not very important; eliminating welfare altogether would hardly make a dent in total spending. But much public and political attention has been devoted to welfare use by immigrants, despite its relative insignificance.

On the surface, immigrants do seem to use welfare programs more often than U.S.-borns, although the large majority of immigrants do not receive public assistance. The March 2000 Current Population

Survey looked at receipt of certain benefits by immigrants and U.S.-borns, including cash benefits (welfare, general assistance or supplemental security income) and noncash benefits (free or reduced school lunch, food stamps, housing subsidies, and Medicaid). This survey found that immigrants were somewhat more likely than U.S.-born citizens to receive these benefits. 8.0% of foreign-born householders and 5.6% of U.S.-born householders received cash benefits. 21% of foreign-borns and 15% of U.S.-borns received major noncash benefits; this difference stemmed largely from a higher rate of Medicaid health care coverage among immigrants.⁶¹ Among recent immigrant households in the Bay Area, however, only 4.6% were on public assistance as of 2000.⁶²

But a closer look shows that immigrants who come here to work (legally or illegally) or to join their family members do not, in fact, have disproportionately high rates of welfare usage. Most of the supposed higher rate of welfare usage by immigrants is actually attributable to just two special types of immigrants – refugees and asylees. Unlike other immigrants, refugees and asylees are generally eligible for public benefits immediately upon entering the U.S. Because they are escaping repressive regimes or war-torn countries, refugees often arrive in the United States with no means of support, and therefore are more likely to use welfare programs than other populations.⁶³

However, refugees only make up about 10% of annual immigration (7.8% in 2000, 12% in 2002).⁶⁴ All other types of immigrants receive AFDC/TANF, food stamps, and General Assistance at the same or lesser rates than do U.S.-born citizens.^{65,66} This is not simply due to the mid-1990s laws (e.g. “welfare reform”) restricting noncitizens' welfare use; it was true before those laws were passed. In 1989, 3.7% of U.S.-born citizens of working age received welfare income. Except for refugees, working-age immigrants were considerably less likely to receive welfare – only 2.0% of recent immigrants and 3.2% of pre-1980 immigrants benefited from public assistance.⁶⁷

The one cash assistance program that most immigrants are more likely to use is Supplemental Security Income (SSI). SSI primarily provides cash aid to the low-income elderly or disabled who do not receive Social Security payments. Because it is more difficult for immigrants to qualify for Social Security, some elderly legal immigrants turn instead to SSI.⁶⁸ But the total annual cost of SSI is miniscule compared Social Security; in 1999, SSI payments in Santa Clara County totaled \$167 million while Social Security payments reached \$1.2 billion.⁶⁹

The large majority of welfare recipients continue to be U.S.-born citizens, who make up about 85% of both cash benefits recipients and major noncash benefits recipients.⁷⁰ This suggests that the national impact of immigration on welfare, food stamps, Medicaid, and similar programs is quite small.

The situation is similar in Santa Clara County. Only 8.9% of CalWORKs recipients in Santa Clara are noncitizen immigrants, and half of those are refugees. Noncitizen immigrants in Santa Clara are much less likely than U.S. citizens to receive CalWORKs, Food Stamps, Foster Care aid, or General Assistance. The only locally administered public assistance program in which immigrants are more likely than U.S. citizens to participate is Medi-Cal only (that is, Medi-Cal not attached to CalWORKs payments): immigrants in Santa Clara make up 40% of Medi-Cal only recipients. This overrepresentation of immigrants in Medi-Cal may be attributed to the low rate of job-based health insurance coverage among immigrants, as well as to their inability to participate in other programs such as CalWORKs + Medi-Cal that offer more generous benefits. At least 58% of immigrant Medi-Cal recipients are not eligible for full Medi-Cal coverage, but can receive only emergency or pregnancy-related services.⁷¹

A detailed study performed in Los Angeles in 1994-95 – before “welfare reform” and various strictures on immigrant use of welfare went into effect – sheds additional light on the incidence of welfare use. Examining six major means-tested entitlement pro-

grams (AFDC, GA, Medi-Cal, food stamps, housing assistance, and free or reduced price school meals), this research found that U.S.-born citizens actually had the highest welfare reciprocity rate at 38.3%. Legal immigrants were next at 37.5%, followed by unauthorized Mexican immigrants at 33.5%.

Naturalized immigrants were far less likely than any other group to use welfare, at just 16.3%.

Furthermore, those immigrants who did receive benefits got less than the U.S.-born recipients did. U.S.-born AFDC recipients had \$6,457 mean annual cash aid from AFDC, compared to \$4,414 for unauthorized Mexican immigrants, \$5,859 for legal Mexican immigrants, and \$5,244 for other noncitizen immigrants. Similar patterns held for food stamps and Medi-Cal.⁷²

In summary, immigrants (other than refugees) use most welfare programs at the same or lower rates than U.S.-born citizens, and the per capita cost of welfare is considerably less for immigrants than for the U.S.-born. These general principles have been found to be true in multiple studies spanning several decades and both the United States and Canada. Simon (1995) suggests that “there is an underlying principle of human behavior at work that governs migration across time and space: the persons who are the most economically productive are the likeliest to move.” In other words, the people who choose to immigrate are self-selected to be more likely to succeed in their new country (and thus less likely to need welfare) than those who choose not to immigrate. This positive self-selection also enhances immigrants’ broader contributions to the U.S. economy, which are explored further in the sections *Immigrants as Workers* and *Immigrants as Investors and Entrepreneurs*.

IMMIGRANTS ARE CRUCIAL TO SOCIAL SECURITY’S SURVIVAL

As has been widely discussed, the future financial viability of the Social Security system in the United States could be threatened by the “graying” of the U.S. population. Beginning in 2011, the baby boom

generation will reach retirement age. At the same time, the birthrate has been steadily falling, and life-span has been increasing as new medical techniques enable us to live longer. As a result, the ratio of workers to retirees in the U.S. will increase dramatically in the coming decades. Indeed, it has already begun; between 1990 and 2000, the elderly population (65 and over) in Santa Clara County grew twice as fast as the county's total population growth.⁷³

This causes two related problems. First, the retirees will need workers to provide for them, especially in the health care and personal care fields. There is already a shortage of health care workers, particularly in the field of long-term care, and it will only get worse as the elderly population grows and the working-age population shrinks. Under current projections, California will face a shortfall of 25,000 nurses within the next few years; at current graduation rates, RN programs can provide only a fraction of this number.⁷⁴ Certified nurse assistants and nurse aides are also lacking, especially in nursing homes. And similar, though less extreme, problems will arise in other industries in the services and retail sectors.

Second, as the boomers retire they will cease paying into Social Security and start receiving benefits. With disproportionately few young workers available to continue paying for Social Security, the benefits paid out by the system will grow and the taxes taken in will shrink, making it more difficult for Social Security to pay for itself. Official projections show Social Security costs growing from now until 2080, increasing from 11% of Social Security-taxable earnings to over 20%.⁷⁵ If this situation persists, the U.S. may face challenges in sustaining Social Security under the present arrangement.

For both of these problems, immigration might just be the solution. Immigrants have no "baby boom" generation, and most immigrants arrive in the U.S. during their prime working years. The average age of a new immigrant is 28. 80% of new immigrants are under 45, and just 5% are over retirement age (65 and above).⁷⁶ In contrast, the average U.S.-born citi-

zen is 35,⁷⁷ only 66% of the overall U.S. population is under 45, and 12% are over retirement age.⁷⁸

Immigration thus does exactly what is needed to fix the balance sheet of Social Security: it raises the ratio of workers to retirees. (The system gets an additional boost because immigrants do not qualify for Social Security if they have worked here for less than 10 years, nor if they are working under a false Social Security number, even though they have paid Social Security taxes in both cases.)

To see how this works, consider a household headed by an immigrant and one headed by a U.S.-born resident, both in California. In 1995, foreign-born households in California paid an average of \$4,131 in Social Security tax. Each household had an average of .199 Social Security recipients, and their mean annual income from Social Security was \$7,297. If we subtract benefits received from taxes paid, each foreign-born-headed household in California contributed a net average of \$2,679 into the Social Security pot.

For U.S.-born households, average Social Security taxes paid were \$5,073, each household had .363 recipients, and mean annual Social Security income was \$8,081. A household headed by a U.S.-born citizen thus contributed a net average of \$2,140 to Social Security — \$539 *less* than an immigrant household.⁷⁹

When this additional contribution is summed over the years, immigrants help enormously in improving the balance sheet of Social Security. It is projected that if immigration continues at current levels, the total net benefit to the Social Security system will be almost \$500 billion from 1998-2022, and will reach \$2 trillion by 2072.⁸⁰ As the U.S.-born population continues to age, immigrants' payments will be essential if we are to keep Social Security afloat.

A NOTE ON METHODOLOGY: HOUSEHOLDS VERSUS INDIVIDUALS

Several studies have attempted to estimate public expenditures on immigrants using data on what are known as “immigrant-headed households” or “foreign-born households.” But this household accounting is inaccurate when looking at benefits for several reasons.

First, immigrant-headed households often contain spouses, children, and other family members who are U.S.-born citizens. Nationwide, 33% of the people included in “foreign-born households” are actually U.S.-born citizens. In contrast, only 1.2% of the members of “native [U.S.-born] households” are foreign born.⁸¹ Thus, if one is attempting to determine the benefits received by foreign-born residents only, the data for “foreign-born households” does not represent this population.

For some purposes it may be desirable to include both immigrants and the U.S.-born children of immigrants in calculating benefits. However, it is difficult to obtain data on this population. Because of the lack of data, some studies attempt to use “foreign-born” households to represent immigrants and their immediate descendants. Unfortunately, looking only at households headed by the foreign-born does not accurately represent the desired population, and in fact introduces a major bias in fiscal incidence calculations that makes immigrant-headed households appear much more costly.

This occurs because the category “foreign-born households” excludes the adult children of immigrants (placing them instead under “native households”), while including dependent children of immigrants. And any calculation of benefits which includes dependent children while excluding adults will be grossly inflated, because children are expensive: they account for nearly all of the public education budget, and most means-tested benefits (TANF,

Medi-Cal, Healthy Families, etc.) are targeted towards children.

For example, suppose a married couple immigrates to the U.S. and then has a baby boy. While that child is growing up, he pays very little in taxes, since he obviously is not employed. And like all children, he uses a lot of expensive government-funded services, including public schools, libraries, health services, parks, sports fields, and so forth. Since he is living with his immigrant parents, all these services that he uses are attributed to a “foreign-born household”.

Now, suppose that at age 18, he graduates high school, moves out of his parents’ house and gets a full-time job. Now he is paying payroll taxes, sales tax, and all the other taxes paid by a working adult, and he is no longer going to school or using public services provided for children. He is now contributing a surplus of taxes to the government. But, as soon as he moves out of his parents’ home, his contributions are no longer counted as coming from a foreign-born household. Instead he is now counted as a U.S.-born household – a switch made just at the moment when he went from being a net expense to a net contributor. This method of accounting obviously, and inaccurately, makes immigrants seem much more expensive than U.S.-born citizens.

This problem could be partially addressed if one included both immigrant-headed households and households headed by a U.S.-born citizen “of foreign stock”: that is, someone with at least one immigrant parent. Unfortunately, data on households of foreign stock is often not available. In addition, of all “U.S.-born children of immigrants” living in the U.S., 46% are actually children of mixed parentage – one U.S.-born and one immigrant parent – making such calculations even more problematic.⁸² Under the circumstances, estimating expenditures per individual is likely to give a much better estimate than using household data. (Household data may be more accurate for programs such as Social Security in which children are generally neither contributors nor recipients.)

IMMIGRANTS AS WORKERS

Like all U.S. residents, immigrants do far more than just pay taxes and participate in public programs. They play significant roles in our economy as workers, consumers, and business owners. The following section examines the impact of immigrant workers on the economy, on business growth, and on U.S.-born workers. An analysis of the evidence produces three major findings:

- Immigrant labor has been an essential component of state and national economic growth, and continuing immigration will be essential to meet future workforce needs.
- Immigrant labor generally complements, rather than substituting for, U.S.-born labor – meaning that overall, immigrants do not take away jobs or reduce wages for U.S.-born citizens, but actually help to create new jobs for U.S.-born workers.
- Even during hard times, immigration helps to cushion the impact of an economic downturn or recession.

A NECESSARY WORKFORCE

The immigrant workforce is essential to economic growth in California and the United States for several reasons. First, the sheer size of the demand for labor requires immigrant workers to meet some of that demand; otherwise, we would simply be unable to fill all the jobs that are needed to keep our communities going. Second, there is a growing mismatch between the education and skills of the U.S. workforce and the jobs produced by the U.S. economy; most new jobs are either high-skilled (for which there may be a shortage of U.S.-born workers with the needed training) or low-skilled and low-paying

(which increasingly well-educated U.S.-born workers do not want to accept). Most workers who immigrate to the U.S. have either very high or very low levels of education, perfectly complementing the U.S.-born workforce and filling in the gaps it leaves. Finally, workers who are immigrating to the U.S. are better able than U.S. residents to move to the places where their skills are most needed, thus filling geographic labor shortages and increasing economic efficiency.

NUMBER OF WORKERS

Changes in the structure of old industries and an upsurge of new industries such as high-tech, along with the high rates of growth and continuing demand for more growth in the national economy, have fueled the need for an ever-expanding U.S. workforce.⁸³ In the 1970s, much of this demand was met by U.S.-born workers; the size of the labor force surged as baby boomers reached working age and women began to enter paid employment in larger numbers. But by the 1990s, the effect of the baby boomers was long gone, and while women's employment continued to increase somewhat, the rate of growth had slowed.

As a result, the national workforce grew by 29% in the 1970s and 18% in the 1980s, but only 12% in the 1990s. Nearly half of the 1990s increase was supplied by foreign-born residents. If high immigration levels throughout the 1990s had not contributed, the workforce might only have grown by 5%. This constraint on labor force increases “would have seriously constrained both job growth and economic growth,” because companies attempting to increase production would not have been able to find enough low-skilled and high-skilled workers. U.S. companies would therefore either have been forced to abandon their plans for growth, or would have moved or

expanded to other countries where the workforce met their needs. The result would have been slower economic growth and fewer jobs created, for U.S.-born citizens as well as for immigrants.^{84, 85}

Fortunately, new immigrants provided the needed labor force that U.S. residents could not, enabling the U.S. economy to keep growing through the 1990s.

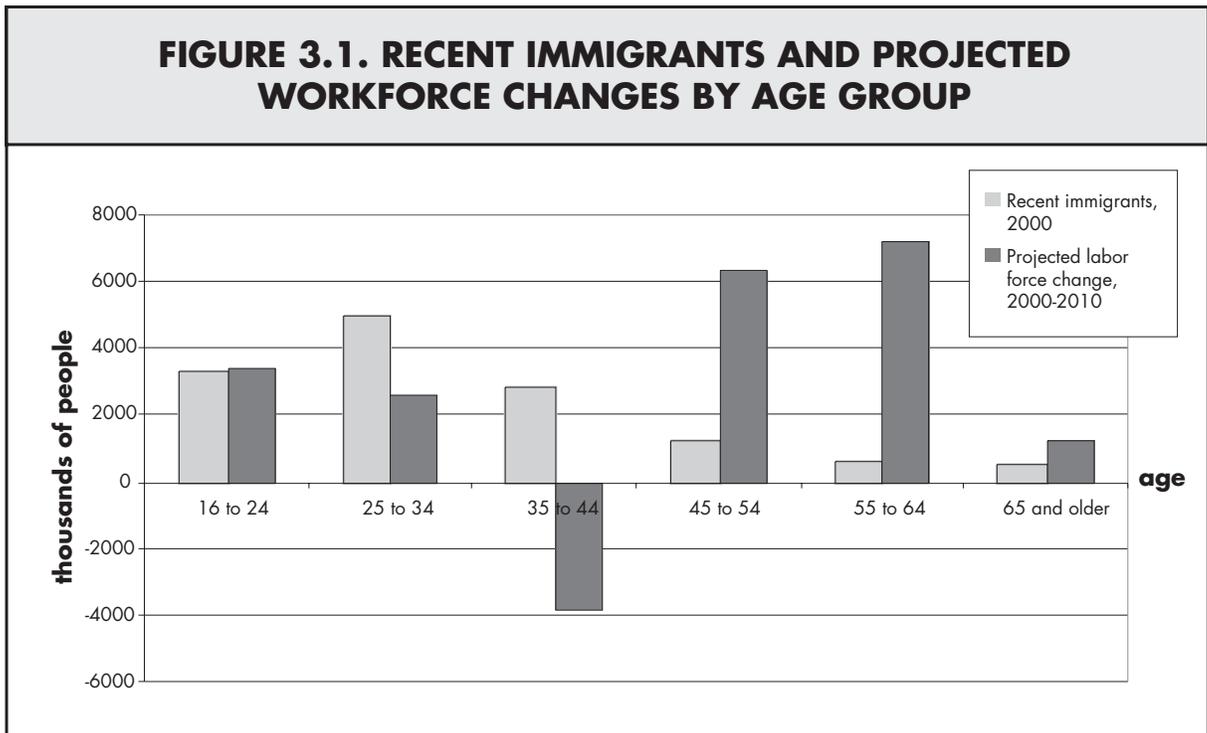
In the near future, the U.S. economy will be even more reliant on immigrants, due to the “graying” of the U.S.-born population. The average age of Americans is increasing, due both to the aging of the baby boomers and an overall increase in lifespan. As the baby boom generation approaches retirement age, fewer and fewer of them will remain in the workforce, and more of them will require enhanced levels of health care and supportive services – and workers to perform those services. We will begin to see these effects in 2011, when the first of the baby boomers are projected to retire. By 2030, more than 60 million workers are expected to age out of the labor force.⁸⁶ In addition, improved health care has

raised life expectancies, further contributing to the growth of the elderly population.

If net immigration fell to zero, the U.S. Census Bureau estimates that the proportion of the population that is “economically dependent” – the young and old who are supported by the working population – would rise from 53% in 2015 to 69% in 2030.⁸⁷ This means that by 2030, less than a third of the population would be working to support the remaining two-thirds.

Immigration helps to balance the graying of the U.S. population. As discussed earlier in this paper, immigrants tend to be younger than U.S.-born citizens. The average age of a new immigrant is 28,⁸⁸ and 85% of new immigrants in 2000-2001 were of working age, compared to 76% of the U.S.-born population.⁸⁹ Figure 3.1 below shows how new immigrants, by virtue of their relative youth, can help fill the projected gap in the workforce caused by the aging population. As the figure shows, most workforce growth

FIGURE 3.1. RECENT IMMIGRANTS AND PROJECTED WORKFORCE CHANGES BY AGE GROUP



Source: U.S. Census Bureau, Current Population Survey, Ethnic and Hispanic Statistics Branch, Population Division. March 2002. <http://www.census.gov/population/socdemo/foreign/pp1-162/tab02-01.xls>

in the U.S. is expected to occur for workers between the ages of 45 and 64, and the number of workers available between 35 and 44 is actually projected to fall by more than 3.8 million. In contrast, recent immigrants are concentrated in the lower age brackets, with the large majority of immigrants under age 44. This means that immigrants can help fill the anticipated workforce gap.

Absent additional demographic shifts that result in higher labor force participation (such as more young people working, or a later retirement age), the U.S. population alone cannot fill the expected workforce demand. The need for workers is now growing faster than the natural increase of the population.

The effect of these national workforce trends has been especially pronounced in California. Over the last several decades, immigration has been the engine behind California's economic growth. From 1970 to 1997-1999, the size of the California labor force nearly doubled, from 7.8 million to 15.8 million workers. Immigrant workers were responsible for 50% of this increase⁹⁰, spurring the California economy to grow roughly twice as fast as in the U.S. as a whole.⁹¹ Today, immigrants made up about 30% of the state's workforce.⁹² Many occupations are almost entirely dependent on foreign-born labor, including farm workers (91% immigrant), house servants (76%), restaurant cooks (69%), and gardeners (66%).⁹³ Immigrants comprise over 40% of the workforce in the services industry (excluding professional and health services), nearly 45% in manufacturing, and over 70% in agriculture, forestry and fishing.⁹⁴ Numerous studies confirm that the impressive growth of the California economy since 1960 would not have been possible without immigrants.⁹⁵

For example, in Silicon Valley, employment in the software industry grew at a rate of 136% between 1990 and 2001, adding 66,100 new workers. If immigrant software employees had not contributed to this total, it would not have been possible to find or train so many new technical workers quickly enough to keep pace with demand. The ability to

attract immigrants gave Silicon Valley access to "a large reserve of high-quality engineers and scientists" who could be recruited in times that industry demand outpaced the speed with which new technical workers could be trained.⁹⁶

Unless immigration can continue can fill these gaps created by the changing U.S labor market and population, California and the U.S. face workforce shortages and an obstacle that could block continued economic growth. Federal Reserve Chairman Alan Greenspan has recognized the problem created by the mismatch between the population and labor market needs, and proposed increased immigration as part of the solution, stating that "there is an effective limit to new hiring, unless immigration is uncapped."⁹⁷

During the 1990s, workforce shortages were the number one problem experienced by many businesses. Even in the current recession, employers still have difficulty finding workers in some fields, such as health care. As the economy recovers and the U.S.-born population continues to age, as well as becoming more educated, the demand for labor will rapidly outstrip supply. One estimate is that 55 million jobs will need to be filled over next 10 years, but only 29 million workers will be available, leaving a shortage of 26 million workers.⁹⁸ Another economist has calculated that between 5 and 15 million jobs will need to be filled by immigrants in order for the US economy to keep growing at 3% per year.⁹⁹ While the exact number of jobs projected varies, it is clear that if our economy is to stay on a long-term course of growth, immigration will be not just beneficial, but necessary.

TYPE OF WORKERS: SKILL LEVELS OF IMMIGRANTS AND U.S.-BORN CITIZENS

Immigration is thus crucial simply to supply the sheer number of workers demanded by our economy. But the type of workers who immigrate is important as well. The U.S. faces a widening gap between the educational levels and employment

expectations of its workforce, and the type of jobs being created as the economy grows. Because the educational makeup of the immigrant workforce is different from that of the U.S.-born workforce, immigrants can help fill this gap.

The educational level of our domestic workforce is rising. In 1990, only 45% of the adult U.S. population had been to college. In 2000, the proportion with college education had risen to 52%. By 2010, it is projected to reach 59%.¹⁰⁰

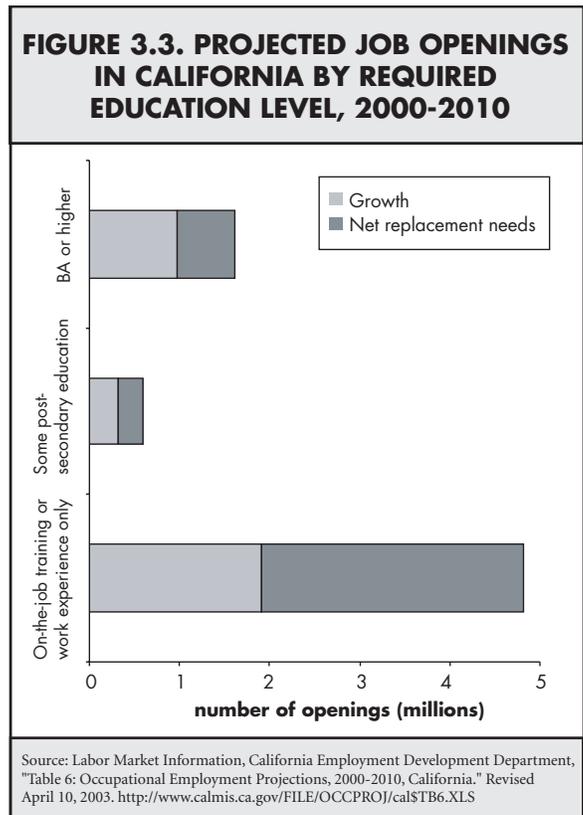
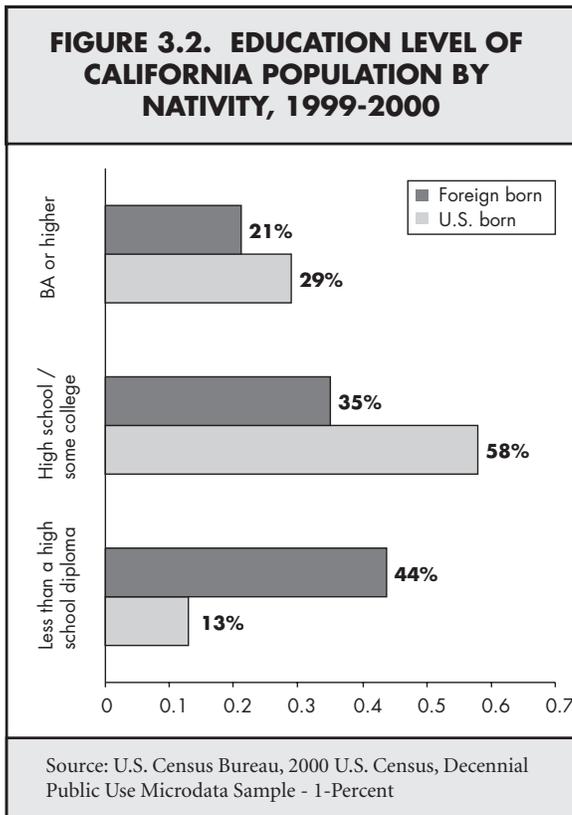
On the whole, an increase in Americans' educational level is surely a positive development. But it also creates a problem. Even as more Americans are gaining the qualifications needed for a high-skilled, well-paying job, the domestic demand for low-wage, low-skilled labor continues to grow. By 2010, the Bureau of Labor Statistics predicts that 67% of jobs in the U.S. will require a high school diploma or less, and most of these will be low-paying.¹⁰¹ Meanwhile, between 1990 and 2000-01 the size of the workforce

with less than a high school education declined by 3.8 million. If not for the 2.5 million recent immigrants in this category, it would have fallen further still.¹⁰²

Figure 3.3 below illustrates projected job openings in California over the next 10 years, showing that most require either a very low or a high level of education.

This leads to a vast number of necessary jobs which the domestic workforce cannot or will not fill, in industries such as services, health care, retail, and hospitality.¹⁰³ Especially relevant to Santa Clara County is the estimate that electronics manufacturing will require 50 times more unskilled workers than skilled engineers in the years ahead.¹⁰⁴

Not all the jobs being created are low-skilled; a substantial increase in high-level jobs requiring a bachelor's degree is predicted as well. But there are fewer and fewer "middle-skilled" jobs. Of the seven million job openings projected in California this decade, over three million are at the lowest educational level, requiring no degrees and only short-term on-the-job



training, and another million require only moderate-term on-the-job training. At the other end of the spectrum, 1.1 million of future job openings will require a bachelor's degree. But job openings between these two extremes are vanishingly few.

This problem would be much more severe were it not for immigration. In contrast to U.S.-born residents, California immigrants remain concentrated at the low and high ends of the educational spectrum (even though the average educational level of new immigrants has increased considerably over the last several decades.¹⁰⁵) At the low end, a much higher proportion of immigrants than U.S.-borns are lacking a high school-level education (32% versus 11% for ages 25-64). And at the high end, immigrants are just as likely as U.S.-born citizens to have a college degree, and those immigrants who become U.S. citizens are more likely than the U.S.-born to have graduated from college: 42% of those who arrived post-1998 have a college degree or beyond, while just 27% of U.S.-borns have attained this level of education.¹⁰⁶ (See Figure 3.2.)

Immigrant workers are thus a crucial complement to the U.S.-born workforce. Those with low levels of education fill the large number of necessary low-skilled jobs in which not enough U.S.-borns are willing to work, while high-skilled, highly educated immigrants help fill positions in sectors which suffer from a shortage of qualified candidates, such as engineering and health care.

If these low- and high-skilled jobs cannot be filled domestically, businesses are likely to leave the U.S. and relocate to a country with a larger available workforce, taking with them all the jobs they provide — including the mid-to-high-level openings that U.S.-born citizens seek. This sort of job flight has already decimated much of the U.S. manufacturing sector. As technological advances make it easier to manage a globally distributed workforce, companies are gaining the ability to move jobs anywhere in the world without loss of efficiency. If the workforce they need is not available in the United States, other

industries may well follow the same path as manufacturing. The continuing arrival of new immigrants who match the demand for workers can help us prevent the flight of additional jobs and industries.

IMMIGRANT LATINA WOMEN MAKE UP BULK OF GROWING LOW-WAGE WORKFORCE: CAUSE FOR CONCERN?

As we have seen, immigrant labor fills a crucial niche in the U.S. and California economies. Nevertheless, there may be cause for concern if immigrants – or certain categories of immigrants – are being shoehorned into very low-paying jobs without the opportunity to move up. In California, a combination of economic and cultural factors and discriminatory employment practices has resulted in immigrant Latina women becoming disproportionately stuck in the lowest-paying work, more so than even other immigrant women or immigrant Latino men. Between 1994 and 2000, low-wage work grew more for foreign-born Latina women than for any other group; the number of immigrant Latinas in the lowest-paying jobs in California increased by more than 100,000, while they gained virtually no new jobs in the highest wage category.¹⁰⁷ To the extent that this phenomenon may be creating a permanent underclass of low-wage workers, and building stereotypes around gender, race and nativity which lead to an attitude that substandard working and living conditions for this population are not a concern, new approaches may be needed to tackle the issues of immigration, low-wage work, and worker exploitation in California.

AVAILABILITY OF WORKERS: STRUCTURAL ECONOMIC INEFFICIENCIES AND IMMIGRATION

In postindustrial economies such as that of the United States, immigration helps compensate for persistent structural problems in the economy. One structural flaw which can be partially remedied by immigration is the occupational and age imbalance between the working population and jobs created by the economy, as described above. By filling this employment deficit, immigrants have enabled the economy to continue to grow. In California, immigration has made it possible for the state's economy to continue growing at a faster rate than the nation; immigration was behind the success of the industrial and manufacturing sectors in earlier decades¹⁰⁸ and underlay the rapid growth of many industries in the 1990s.

Another structural issue faced in today's economy is the increased need for labor mobility and flexibility. Though the domestic workforce is becoming more flexible, this change has many negative consequences for the workers, and there remains a substantial demand for labor mobility which the U.S. workforce cannot or does not want to meet. Immigration increases geographic labor mobility, thereby making the U.S. economy more efficient and helping fill the demand for a more flexible workforce.¹⁰⁹

How does labor mobility increase economic efficiency? From an economist's perspective, labor markets are more efficient if the value of labor is the same in every region. This means that, ideally, the pay for a particular occupation should be the same in every region of the United States (accounting for differing costs of living and related factors).

In theory, this happens naturally because workers will move away from regions with low wages to regions with higher wages, thereby increasing the supply of labor where it is scarce. For example, suppose that there are not enough nurses in Los Angeles, and so L.A. hospitals looking for nurses have to offer very high wages compared to other

parts of the country. Nurses from other regions will move to L.A. to take advantage of the higher pay. But if enough nurses move, there will no longer be a severe shortage of nurses, and pay will go back to more normal levels. Nurses who do not move also benefit, because the exodus of nurses from low-paying regions means that those who stay can command a higher wage.

In reality, however, moving is expensive and time-consuming, and many factors other than pay rates are important in people's decision to move or stay where they are. The U.S. labor market is therefore not as efficient as it could be, and wages continue to vary in different regions.¹¹⁰

This is where immigrants come in. New immigrants have already committed to move to the U.S., so it takes little extra effort for them to choose to live in one area of the country rather than another. When immigrants initially choose to come to the U.S., they are likely (much more so than U.S.-born citizens or earlier immigrants) to move to the part of the country where there are abundant jobs available for their occupation – i.e., where there is a shortage of workers with their skills. So immigrants are proportionately more mobile than U.S.-borns; for instance, 15% of all U.S. workers who moved across state lines between 1985-1990 were new immigrants, even though new immigrants made up only 1.9% of the workforce. In economic terms, new immigrants are more “responsive to regional differences in labor market opportunities” than U.S.-born citizens or earlier immigrants.¹¹¹

Immigration therefore improves the efficiency of labor markets, which helps the economy to grow. One study uses economic modeling of the gains from immigrant and U.S.-born “movers” to make a rough estimation that the efficiency gains from immigration bring a benefit of about \$10 billion per year to U.S.-born Americans.¹¹²

GUEST WORKER PROGRAMS: THE H-1B VISA

The above analysis assumes that most foreign workers who come to the U.S. intend to stay here permanently, becoming U.S. residents. But in addition to permanent immigrants, several programs are designed to bring in foreign workers to the U.S. as temporary migrants, to work here for a certain time period under a special employment status and then leave. This type of arrangement, known as a “guest-worker” program, can be beneficial in filling temporary shortages in specific occupations. However, it can also lead to problems of a type that do not arise when immigration is permanent.

First, guestworkers are often dependent on their employer to remain in the U.S., or otherwise restrained from freely changing employers. With a reduced ability to leave their employer, guest workers are likely to accept below-market-level wages, because they are not free to place their labor on the open market. They are also more likely to accept health and safety risks and other labor law violations without complaint, again, because to complain puts their ability to remain in the U.S. at risk. In some cases, guest workers may not be covered by all of the labor laws designed to protect U.S. workers. The result is that guestworkers have a greatly restricted ability to negotiate due to their dependence on the employer, and employers therefore have an incentive to preferentially hire guestworkers over U.S. workers.

Secondly, the demographics of guestworkers, coupled with the fact that they do not stay in the U.S., can cause structural problems to arise. In some types of guestworker programs, the foreign workers employed tend to be disproportionately young and have little experience compared to the average for that field. This means that the guestworkers command a lower wage than the native workforce in that field, driving wages down (and incidentally reducing payroll taxes). As the guestworkers become older and more experienced, instead of continuing to work in the U.S., they move back to their home country,

and U.S. employers hire a new batch of young workers. Wages become artificially depressed, and job openings for older workers are reduced.

THE H-1B VISA PROGRAM

The H-1B visa program is a guestworker program for high-skilled workers, heavily used by the technology sector, which suffers from both these problems. It was created by the 1990 Immigration Act, replacing the similar H-1 visa program, and modified by subsequent acts. H-1Bs are temporary work visas issued for high-skilled workers in selected occupations. Restrictions were created in 1990 to require visa recipients to hold at least the equivalent of a bachelor’s degree in their field; to permit them to stay no more than six years in total; to require employers to pay prevailing wage to H-1B employees; and to cap H-1B visas at 65,000 annually. By 1998, the annual cap was being reached in May, preventing issuance of H-1B visas for the rest of the year. In fall of that year the cap was temporarily raised to 115,000 visas annually, with the provision that companies with a large proportion of H-1B visas would have to demonstrate that they had tried to find U.S. workers and had not recently laid off employees doing similar work.¹¹³ Although it was intended to fall back to 65,000 after several years, it was subsequently raised again to 195,000 annually.¹¹⁴ The cap returned to 65,000 for 2004; this cap was reached on February 17th, ending acceptance of H-1B petitions for the remainder of FY2004.¹¹⁵ In 1999, there were an estimated 360,000 H-1B workers living in the U.S.¹¹⁶

H-1B visas are issued only to workers who already have a job offer from a U.S. employer. The prospective employer must submit a Labor Condition Application (LCA), reporting what the worker’s rate of pay will be, attesting that it meets prevailing wage and equivalent benefit requirements, and providing other basic information. Employers whose workforce included 15% or more H-1B workers must also attest that the employer has tried to recruit U.S. workers for the position and has not & will not “displace” (i.e., lay off) any equivalent U.S. workers in

the 90 days before & 90 days after filing the H-1B petition. Employers pay a \$1,000 application fee for each H-1B worker, a portion of which goes to training and education grants for displaced U.S. workers.

In the mid to late 90s, the majority of H-1B visas were issued for high-tech jobs, and high-tech employers were among the strongest proponents of raising the annual limit on visas issues. But the number of H-1B visas issued for high-tech positions has fallen dramatically with the economic downturn, from 105,692 in 2001 to just 27,199 in 2002.¹¹⁷

H-1B is not the only temporary visa program for high-skilled workers. Mexicans and Canadians in professional occupations can come to work in the U.S. on a temporary basis through a TN visa (created under NAFTA), which requires a letter from their intended employer in the U.S. and has fewer restrictions than an H-1B. In 2002, 71,878 Canadian professionals and 1,821 Mexican professionals came to work in the U.S. under a TN visa.^{118,119} The L-1 visa for intra-company transfers (i.e., bringing foreign employees of a multinational company to work in the U.S.) also has very few restrictions, and its use has increased in recent years. 57,721 L-1 visas were issued in FY 2002, compared to 38,307 in FY 1998.¹²⁰ Other temporary work visa categories apply to specific occupations such as nurses and entertainers.

H-1B WORKERS ARE PAID LOWER WAGES

Despite the prevailing wage requirements, H-1B workers in engineering and programming occupations earn, on average, between 15% and 30% less than US-born workers.¹²¹ Employers can manipulate prevailing wage determination in various ways (e.g., inaccurate job titles, paying an entry-level wage for experienced workers) to pay H-1B workers far less than equivalent U.S. resident workers. The Department of Labor reviews the LCA as part of the H-1B application process, but has very little ability to verify the prevailing wage or to deny a visa application on that basis. The U.S. General Accounting Office found that “employers can use almost any

source to determine prevailing wage and ETA [the Dept. of Labor office that reviews visas] does not have the authority to verify the authenticity of the information unless officials can demonstrate that the source is obviously inaccurate on its face. According to ETA officials, even if they know a prevailing wage is incorrect, they must approve the LCA.”¹²²

In addition, there has been a growing trend in the IT industry to lay off or avoid hiring older, more experienced professionals who command a higher salary in favor of younger workers (especially those just out of college) who will work longer hours for lower pay. This extends to the H-1B program; employers often hire a younger H-1B worker in lieu of a more experienced U.S. resident. For instance, in 2002, 52% of U.S. citizens employed as electrical engineers were over 40, compared to only 16% of H-1B applicants approved for that job.¹²³ Of all H-1B petitions approved in 2002, only 13% were 40 or over.¹²⁴ Thus, even if H-1B workers are paid the same as U.S. workers of the same age and occupation, they will be paid less than the average pay for their occupations, because they are comparatively younger. As discussed above, this distorts the U.S. labor market, since most H-1B workers do not stay here as they become older and their earnings increase.

BODYSHOPPING

In another problematic development, the expansion of H-1Bs has created an entire industry of contractors – popularly known as “bodyshops” — who recruit foreign workers for U.S. companies and obtain H-1B visas to bring them here. This industry is remarkably similar in its purpose to the farm labor contractors discussed above. Bodyshops usually act as the employer of record for visa purposes, recruiting workers, completing the paperwork to get them an H-1B visa, and bringing them to the United States. Often they charge a fee of several thousand dollars to the worker for this initial service. They then contract these workers out to other companies, with the bodyshop receiving a commission from the “end-user” company. For example, bodyshops generally charge \$70/hour or more for an H-1B pro-

grammer with 4 to 5 years of experience, while paying that worker about \$35/hour. Essentially, the H-1B workers are temps or contract employees, who may end up working for many different firms (while still employed and paid by the bodyshop) in the course of their stay.¹²⁵

Legally, an H-1B visa can only be granted if the worker has already been offered a job, so the bodyshop must pay the H-1B worker the full prevailing wage specified in the visa, whether or not it has found a secondary employer for the worker. But while the H-1B employee is waiting for the contractor to place him or her in a job (such workers are referred to as “on the bench” or “benched”), some contractors try to pay the benched worker less than the agreed-upon rate, or do not pay them at all. This is illegal, but workers often do not challenge it for fear of losing their visa.¹²⁶

Some contractors also try to write into workers’ contracts large penalties if they try to leave the bodyshop to accept a job directly with another employer. This may also hold wages down, since a worker cannot leave their employer to accept a higher-paid job offer.¹²⁷

Bodyshopping itself is legal, although some contractors violate the law in various ways, such as padding applicants’ college degrees and technical qualifications, falsely claiming to have a guaranteed job opening waiting in the U.S., underpaying workers, or preventing workers from accepting another position.¹²⁸ In 2002, Department of Labor investigation found 112 employer violations of H-1B wage provisions, more than twice the number of violations found in 2000. Employers who had violated wage requirements owed \$4.2 million in back wages to 580 employees.¹²⁹ But even when legally undertaken, bodyshopping practices distort the purpose of the H-1B program, which was intended to allow employers to recruit abroad for existing job openings for which no domestic workers are available – not to bring workers into the country and *then* try to find jobs for them.

SHORTAGE OF GREEN CARDS EXACERBATES PROBLEMS WITH H-1B

A large part of the problem with H-1B (and other guestworker programs) actually lies in the excessive restrictions on green cards, which have long been out of touch with economic realities. There are plenty of people who would like to immigrate to the U.S. and compete for jobs on the same terms as any other worker, and there have been plenty of jobs available for them (though in the current downturn, there are both less jobs and less workers trying to immigrate). But our immigration policy does not allow most of them to freely enter. So many obtain other types of visas, planning to try for a green card after coming to the U.S.

This is particularly true of H-1B visa holders. Originally, H-1 visas had a “double temporary” requirement; employers could only hire H-1 workers for temporary positions, and the worker could not intend to seek permanent status. By 1990, both of these provisions had been removed. Today employers commonly hire H-1Bs (singly or in succession) for long-term positions, and many, perhaps the majority, of H-1Bs have aspirations of permanent residency.¹³⁰ In 1993, 47% of H-1B recipients adjusted to permanent status, i.e., obtained a green card. This percentage has since fallen due to restrictions on the number of green cards granted coupled with the lengthy INS backlog of green card applications, but it is clear that a large proportion of H-1B recipients continue to desire permanent U.S. residency.¹³¹ If high-tech immigrant workers had green cards rather than H-1B visas, they would have the same status and bargaining power as U.S. citizens, and the perverse incentive for employers not to hire citizens would largely disappear.

Since H-1B holders are dependent on their employer to sponsor them for a green card, this is an invitation for exploitation by unscrupulous employers. H-1B workers already depend on an employer to file for their initial visa. If an H-1B worker is fired or laid off, the visa becomes invalid, and he or she must leave the country or face deportation (although there

is no set period of time within which they must leave). The worker can stay only if they find another job and the new employer agrees to sponsor the H-1B visa.¹³² Recognizing that this situation gave employers an unhealthy level of control over H-1B workers, in 2000 Congress introduced “visa portability” rules for H-1Bs, making it somewhat easier for an H-1B worker to change jobs. But for a worker who is waiting for a green card, the new rules do not help at all.

In December 2003, nine immigrants in high-tech jobs filed a class-action lawsuit against the Department of Homeland Security for failing to process their green card applications within the required six months. The immigrant workers, many of them present on H-1Bs or L-1Bs, have put large parts of their lives on hold while waiting years to receive a response on their green card applications. Said lawyer Rajiv S. Khanna, “‘Because you’re not a green card holder, you can’t do anything with your life. Banks won’t give you a loan. You can’t buy a house. You can’t start a family.’”¹³³

DOES IMMIGRATION HARM U.S.-BORN WORKERS?

One of the most common arguments advanced for limiting immigration is the contention that immigrants “steal jobs” from U.S.-born workers. There is a widespread belief that immigrants lower wages and/or increase unemployment for the domestic workforce. In California, this theory has been perennially popular during recessions; one historical review found that “the worst anti-immigrant movements in California occurred in the 1880s, 1900, and the ‘30s, ‘50s, and ‘90s, each time after a major economic contraction.”¹³⁴ If immigration does, indeed, harm the U.S.-born workforce, it could be argued that even though the overall economic impact of immigration is positive, the impact on working-class and middle-class Americans might be negative.

Yet study after study has found that immigration to the U.S. does not lower the average wages of U.S.-

born workers, nor does it increase their unemployment rates. In a field as complex as immigration studies, there is a remarkable consensus among researchers that this is the case. Several interconnected factors result in this robust finding. First of all, the number of jobs in the economy is not fixed, but is a function of the demand for labor; since immigrants are consumers as well as workers, they increase this demand, thereby creating new jobs. Second, annual immigration is small relative to the total workforce, so any impact immigration could have on national employment or wages pales in comparison to the effect of larger forces such as economic cycles and government policy. Finally, immigrants tend to take different jobs than U.S.-born citizens, due in large part to the difference in educational levels discussed above.

IMMIGRATION DOES NOT LOWER WAGES OR RAISE UNEMPLOYMENT

Even the conservative Cato Institute, in a comprehensive 1995 report, found that immigrant workers do not substantially harm U.S.-born workers’ wages or employment rates. After reviewing the many studies of immigration and employment carried out over the last several decades, the Cato report concluded:

“Immigrants do not increase the rate of unemployment among native [U.S.-born] Americans, even among minority, female, and low-skill workers. . . . [There is] an unusual consensus in the results of the various studies . . . [which] can be summarized as follows: Immigrants have practically no negative effect in the labor market on any person except other immigrants. The effect on wages is modest by any appraisal, and the effect on unemployment apparently is zero. It is all-important that these facts are agreed upon by all observers.”

In fact, over the last century, states with a larger immigrant population have consistently enjoyed lower unemployment rates. High-immigration states also have higher average wages.¹³⁵

This does not necessarily mean that immigration raises wages and reduces unemployment. Additional factors may be at work; for example, immigrants may tend to settle in states that have better employment prospects. But it is certainly a powerful argument that growth of the immigrant population does *not* bring about massive pay cuts, nor does it put large numbers of U.S.-born residents out of work.

IMMIGRANTS DO NOT RAISE UNEMPLOYMENT LEVELS SUBSTANTIALLY AMONG U.S.-BORN BLACK, LATINO, FEMALE, OR LOW-WAGE WORKERS; MAIN IMPACT OF NEW IMMIGRATION FALLS ON PREVIOUS IMMIGRANTS

Immigrant workers are not distributed evenly throughout all industries and occupations. Although immigrants can be found in just about any job, many immigrant workers are concentrated in a few low-wage industries, such as retail, services, agriculture, and certain types of manufacturing. Immigrants are also much more likely to live and work in urban areas, often in regions where high proportions of African-Americans and/or Latinos also work. Even though immigration does not harm U.S.-born workers overall, might it have a negative effect on particular groups of workers with whom immigrant labor seems to compete, such as low-wage workers, African-Americans, or Latinos?

Overall, it seems that this is not the case. Studies looking at the impacts of immigration on blacks and Latinos, as well as at low-wage workers overall, have found little or no negative effect on employment or wages. In some cases there is even a positive effect; regions with more immigrants in the workforce also have a lower unemployment rate for blacks. Under some circumstances groups of black workers may be disproportionately affected – this generally happens to low-skilled black workers living in areas with high immigration during a period of economic stagnation or decline.¹³⁶

The only overall negative effect found is a slight

increase in unemployment for Latinos, chiefly foreign-born low-skilled Latinos. New immigrants employed in low-wage work are to some extent a substitute for low-wage immigrants already here.^{137, 138}

IMMIGRANT LABOR COMPLEMENTS U.S.-BORN LABOR

At first glance, these findings seem counterintuitive. Immigration obviously increases the number of workers available, and based on the laws of supply and demand, a larger labor pool ought to mean lower wages and more competition for jobs. If the addition of new workers to the labor market were the only variable affecting the U.S. labor market, wages would indeed fall with increased immigration. But other factors are at work.

First and foremost, immigrants are not just workers; they are also consumers. In this economic role, immigrants increase demand for goods and services, thereby creating new jobs, many of which are filled by U.S.-born citizens. It is a common fallacy that an immigration-induced increase in population means fewer jobs, but it is easy to see that this is not the case. More people does not automatically equal fewer jobs, and indeed, growth is generally a sign of a healthy economy while large numbers of people leaving a region indicates poor economic times.

Broadly speaking, an increase in population in a given area does not automatically increase unemployment and lower wages, because both the supply of labor and the demand for labor increase. Growth alone does not put people out of work: a well-known concept, but one that we often fail to apply when discussing the economics of immigration.

Second, immigration is so small in comparison to other factors influencing the U.S. and California labor markets that it would be difficult for it to have any major effect on overall wages or employment. From 1990 to 1999, 2.2 million net immigrants entered California – but they increased the state's population by just 7.2%. Trends such as the economic boom and bust, the aging of the population,

and changing federal and state policy have such a heavy influence on statewide employment rates and wage levels as to essentially overpower any effects which immigration might have had, if no other trends existed.

Finally, immigrants by and large take different jobs than do U.S.-born citizens. These are often the jobs that U.S.-borns do not want to fill, as well as skilled jobs which not enough U.S.-borns are qualified to fill, as in certain high-tech and nursing occupations. As discussed above, many of the fastest-growing occupations are for low-skilled workers, while the U.S.-born population is becoming increasingly high-skilled. The ability to hire immigrants for positions that U.S.-born citizens cannot or will not fill may prevent firms from reducing their domestic workforce, either by substituting capital for labor through increasing automation, or by moving plants or outsourcing work to other countries – thereby enabling firms to keep jobs in the United States.¹³⁹

In economic terms, immigrant labor is a complement, not a substitute, for the labor of U.S.-born workers. This remains largely true if we break workers down by race and income: immigrant labor overall is a complement rather than a substitute for low-wage workers and for Black workers. However, as mentioned above, there is a small negative effect of immigration on foreign-born Latinos, indicating that new immigrant labor is partly a substitute for the labor of earlier immigrants.¹⁴⁰

SOME WORKERS ARE STILL AFFECTED

Even though there is no net negative impact on U.S.-born workers or on subgroups such as low-wage, Black, Latino, or woman workers, this doesn't mean that no U.S.-born worker ever has a difficulty partly attributable to immigration. Usually this impact takes place in a single industry which employs high numbers of immigrants in a particular city or region – in other words, where immigration is a large factor in employment, and where it becomes a substitute rather than a complement for U.S.-born workers. So immigration does influence wages and employment

in industries such as agricultural work in the San Joaquin Valley, low-wage manufacturing in Los Angeles, and restaurants in L.A.¹⁴¹ U.S.-born workers in these industries may well find that they have more difficulty competing for a job.

The high concentration of immigrants in these particular low-wage jobs may create problems in itself; immigrants employed in these industries sometimes labor for very low wages and under unsafe conditions, and are unaware or unable to take advantage of their rights under U.S. labor law. The issues of poverty and worker health significantly affect both immigrants and the larger society.

But this does not contradict the overall finding that immigrants have no net negative effect on wages and employment. Even though agricultural workers (for example) might be harmed by immigration, workers employed in other industries will benefit, because the immigrants buy their goods and services, creating more jobs. In addition, the jobs affected are a small part of the overall economy. And many of the jobs in immigrant-worker-dominated industries might simply go overseas or be eliminated through technology if the immigrant workforce were not available. A comprehensive review of the literature found little evidence that U.S.-born workers were being displaced in specific industries, even in more skilled occupations like nursing.¹⁴²

IMMIGRATION IN HARD TIMES

While the recent recession officially ended in late 2001, many believe that reports of its death have been greatly exaggerated. Unemployment remains high, with millions of Americans still out of work – 8.0 million unemployed as of August 2004,¹⁴³ more than a million of them in California.¹⁴⁴ And even those who have jobs are finding that those jobs now pay less, offer fewer benefits, and lack security. This might lead us to question whether immigration is still economically beneficial, or if now is rather a time to institute stricter immigration controls.

In tough economic times, many in the U.S. have historically turned their anger and frustration on immigrants. But in reality, immigration does not cause downturns in the economic cycle; on the contrary, relatively free flows of immigration help lessen a downturn's effects. The recession does not alter the long-term importance of immigration to the success of our economy.

During California's last downturn in the early 1990s, immigration played no measurable role in sparking the recession,¹⁴⁵ and in fact helped cushion the impact by creating a more flexible labor force. Flows of immigrant labor generally can be expected to lessen during recessions, because potential immigrants will not come to the U.S. if they know there are few jobs available; temporary migrant workers will wait until the employment situation improves; and some immigrants who have recently arrived may decide to return home. It is much easier for recent or potential immigrants than for U.S.-born citizens to leave the U.S. labor force or choose not to enter it. (U.S.-born residents and long-term immigrants can employ such strategies as early retirement or returning to college, but these are often not financially feasible options.)

Immigration's ability to soften the employment impacts of a downturn can be seen in the Silicon Valley high-tech industry. As the tech bubble burst, the number of jobs available in high-tech has plummeted. This has led to a large number of high-tech workers competing for an ever-shrinking pool of jobs – with the result, of course, being high unemployment. But many immigrant high-tech workers, rather than staying here and contributing to unemployment rates, are moving back to their home nations. An estimated 15,000 to 20,000 Indian immigrants have left San Jose for India. Recent Chinese and Taiwanese immigrants are moving home as well, as the demand for high-tech workers in China grows. Chinese companies are even holding job fairs in Silicon Valley to entice unemployed Chinese tech workers to return home.^{146,147}

These immigrant workers' departures ease the pressure on those who remain in Silicon Valley; in effect, immigration has allowed the pool of available workers to shrink as jobs become scarce. In theory, U.S.-born tech workers could produce the same effect by moving in search of work; but the economic downturn affects the entire U.S., and it is much easier for relatively recent immigrants to move back to their own countries than for U.S.-born workers to transplant themselves to India or China in search of work. If there had been no recent immigrants in high-tech jobs who could leave when times grew tough, competition for jobs would be fiercer and unemployment even greater than it is now.

Despite the present downturn, economists still predict a long-term workforce shortage in key industries. A study by the state's Little Hoover Commission, released in July 2002, argued that California needs to admit *more* immigrants, based on its findings that not enough workers would be available to maintain California's economic growth.¹⁴⁸

WHAT DETERMINES LEVELS OF IMMIGRATION?

Americans tend to view immigration as an external phenomenon, something caused by conditions in other countries. But it is not just a fortunate coincidence that immigration tends to fall during downturns when fewer jobs are available, and grew in the 1990s just as we needed more immigrants to fill severe workforce shortages. In large part, the rate at which immigrants come to the U.S. is driven by the needs of the U.S. economy.¹⁴⁹

Economists who study migration find that “it is a basic fact that the timing, numbers, and types of migrant flows are determined almost entirely by actors in ‘labor-receiving’ nations.”¹⁵⁰ Put simply, immigrants come to the United States to work because there are jobs available for them. When there are fewer jobs available in a country, fewer immigrants will come. (The exceptions to this rule are refugees and people seeking asylum, who often

come because they have been driven out of their home countries.)

Focusing on Mexican immigrants, the cost to a single worker of migrating to the U.S. is three to seven times the entire annual income of the average rural Mexican family. Mexican households are only willing to invest such resources because they know work is available in the United States – and because U.S. employers directly or indirectly contribute a substantial portion of the cost of migration in order to obtain the workers they need.¹⁵¹

An earlier study looked at immigration before World War I, when there were few restrictions on how many people could enter the U.S. The study found that immigration levels responded to changes in the economy and labor market in the U.S. (and not primarily to changes within the home country.) The responsiveness of immigration to employment conditions in the U.S. benefited the U.S.-born population in both upturns and downturns. As consumers, immigrants increased the demand for labor, leading to job creation. In downturns, immigration rates fell, decreasing the size of the workforce and softening the blow of the downturn on unemployment levels. In short, immigration was found to enhance growth during good economic times and to reduce the negative impacts on workers of poor economic times.¹⁵²

CASE STUDY: MIGRANT AGRICULTURAL WORKERS

To illustrate the role of immigrant workers in the U.S. economy, as well as how immigration is induced by demand in the United States, we will take a closer look at one particular economic sector: agriculture.

Much of the agricultural labor force in the U.S., and particularly in California, is composed of Mexican immigrants. This is no accident; agricultural employers play a key role in enabling their employees to migrate to the U.S.

A 2001 field study of migrant farm labor found numerous methods by which U.S. employers actively recruit Mexican workers to fill job openings. Crew foremen give their workers money to bring additional farmworkers (often friends and family) into the U.S. Agricultural employers establish recruiting centers in Mexico that assign jobs and provide loans for migration. And in numerous Mexican towns, the entire able-bodied workforce migrates to the U.S. each year to work in the fields, spurred by employers, recruiting centers, and contractors.¹⁵³

A whole industry has grown up of “farm labor contractors” (FLCs) whose job it is to recruit and finance the migration of migrant farmworkers. FLCs employ between half and two-thirds of the state’s 600,000 seasonal farmworkers. As labor market intermediaries, FLCs contract with US employers to provide workers, recruit workers to migrate from Mexico, arrange their transport into the US, and manage much of their employment.¹⁵⁴ Mexicans migrate to the U.S. to work as farm laborers because there is a structure in place which recruits, encourages, and supports them in doing so.

Clearly, if it were not for the extensive recruitment and support networks set up by U.S. employers, far fewer migrant farmworkers would come to the U.S. The impetus for this type of migration comes from here, not just from Mexico; it is driven by the structure and demands of the U.S. economy.

IMMIGRANTS AS INVESTORS AND ENTREPRENEURS

In addition to their role as workers, many immigrants in the U.S. take part in the growth and development of businesses. Some strike out as entrepreneurs and start their own companies. Some provide investment funding, enabling startups to get off the ground or helping existing businesses to grow. Collectively, communities of immigrants engaged in a particular field provide critical networking resources both with other immigrants in the same field and with markets, businesses and investors in their home countries, bringing U.S. firms the benefit of their cultural capital. And immigrants who were educated in different countries often bring new approaches to their work in the U.S, fostering the creativity and innovation that has become the hallmark of the New Economy.

SKILLED IMMIGRANTS AND THE BIRTH OF SILICON VALLEY

In Santa Clara County, the influx of skilled immigrants has been instrumental in the growth of the region's signature industry: high-tech.

Today's high technology industries first began to take root in the Santa Clara region in the 1950s and early 1960s. But the fledgling industry's growth required large numbers of skilled workers, engineers, and scientists — more than were available in the existing workforce. This shortage would have severely restrained the region's economic growth, were it not for immigration.¹⁵⁵

In 1965, the Hart-Cellar Act reformed national immigration laws to attract more immigrants who possessed needed job qualifications and skills. Shortly afterwards, Silicon Valley's electronics indus-

try began to take off. With the support of an immigrant workforce, high-tech grew throughout the 1960s and 70s. Like many others in Silicon Valley, these immigrant high-tech workers caught the entrepreneurial spirit and began to start their own businesses in the 1980s and 1990s.¹⁵⁶

By 1990, immigrants made up 30% of the high-tech workforce in Silicon Valley and 32% of the scientists and engineers working in high-tech, although they comprised only 25% of the overall workforce.¹⁵⁷ Changes in the law in 1990 drew even more engineers and others with needed skills. From 1990 to 2001, software industry employment in the Valley grew from 48,500 to 114,600. Of necessity, much of this growth came from the large-scale migration of skilled software workers; training the needed number of workers in such a short period of time would not have been possible.¹⁵⁸

In short, the success of Silicon Valley as a high-tech hub relied upon the confluence of several necessary elements, including major research universities, the availability of capital, a willingness to innovate and take risks, *and* the existence of a workforce with the necessary skills, able to quickly expand. Without immigration, the skilled workforce could not have grown quickly enough to supply firms' needs, and Silicon Valley as we know it would not have developed.

IMMIGRANT STARTUPS

Many immigrants start their own businesses; this entrepreneurship creates new jobs for Americans, as well as bolstering economic growth and the expansion of new industries in the United States, attracting foreign investment dollars into the country, and

SELECTED IMMIGRANT-FOUNDED TECH COMPANIES IN SILICON VALLEY¹⁶⁷

AST COMPUTERS: Founded by Pakistani immigrant Safi Qureshy.¹⁶⁸ Bought by Samsung in 1997.

ATEL: Founded by George Perlegos, a Greek immigrant. \$1.47 billion revenue, San Jose-based, semiconductor manufacturing, 8,190 employees companywide.

BROADVISION INC.: Founded by Pehong Chen, immigrant from Taiwan. \$248 million revenue, Redwood City-based provider of e-commerce software. 2,412 employees companywide.

CYPRESS SEMICONDUCTOR: \$819.2 million revenue, San Jose-based, semiconductor manufacturing, 4,160 employees companywide.

DSP COMMUNICATIONS: Founded by Davidi Gilo, an Israeli immigrant. DSP was bought by Intel for \$1.6 billion in 1999. Gilo now chairs another tech company, Vyyo, in Cupertino, CA.

EBAY: Founded by Pierre Omidyar, Iranian immigrant born in France. \$749 million revenue, internet-based auction services. Headquartered in San Jose. 2,650 employees companywide.

HOTMAIL: Sabeer Bhatia, Indian immigrant, founder, sold company to Microsoft for \$400 million.¹⁶⁹

INTEL: Founded by Andy Grove, a refugee from Hungary. \$27 billion revenue, Santa Clara-based, semiconductor manufacturing and networking. 7,000 employees in Silicon Valley, 86,100 companywide.

INTERWOVEN: founded by Peng Tsin Ong, who immigrated from Singapore. \$112 million revenue, Sunnyvale-based internet company. 696 employees companywide.¹⁷⁰

JDS UNIPHASE: co-founded by Jozef Straus, Czech immigrant. Australian immigrant Kevin Kalkhoven was also instrumental in the company's growth as chair and CEO. San Jose-based networking/telecommunications company, \$3.2 billion revenue, 19,948 employees companywide.

JUNIPER NETWORKS: Founded by Pradeep Sindhu, Indian immigrant. \$887 million revenue, headquartered in Sunnyvale, networking. 927 employees companywide.

LAM RESEARCH: \$1.52 billion revenue, Fremont-based, semiconductor equipment manufacturer. 3,150 employees companywide.

LSI LOGIC: \$1.78 billion revenue, Milpitas-based, semiconductors. 6,737 employees companywide.

SANMINA CORP. (now Sanmina-SCI): Jure Sola, chair and CEO, is an immigrant from Croatia. San Jose-based semiconductor company. \$4.05 billion revenue, electronic mfg. services. 48,774 employees companywide.

SOLETRON: \$18.7 billion revenue, Milpitas-based, electronic manufacturing services. 60,000+ employees companywide.

SUN MICROSYSTEMS: Co-founded by Indian immigrant Vinod Khosla in 1982.¹⁷¹ \$18 billion revenue, servers and computer workstations. 43,700 employees companywide.

VITRIA TECHNOLOGY: Sunnyvale-based software company, \$135 million revenue, 400 employees in Silicon Valley, 850 employees companywide. Chaired by JoMei Chang, an immigrant from Taiwan, since it was founded in 1994. Previously, she cofounded another successful company, Teknekron Software, in 1986.¹⁷²

WANG LABORATORIES. Cofounder: Vinod Khosla, Indian immigrant.¹⁷³

YAHOO!: Co-founded in 1995 by Taiwanese-born Jerry Yang. \$717 million revenue, headquartered in Sunnyvale. 3,000 employees companywide.

expanding international markets for U.S. goods and services.¹⁵⁹ Immigrants are generally, though not always, found to be more likely than U.S.-born citizens to be self-employed. Borjas (1990) found that in 1980 12% of immigrants were self-employed, compared to 11% of nonimmigrants,¹⁶⁰ while a study in 1989-1990 of Chinese, Filipino and Korean immigrants in greater Los Angeles found that 26% were self employed.¹⁶¹

In Silicon Valley, immigrants have been instrumental in creating many of the region's most successful companies. Roughly one-third of all startups in Silicon Valley today are started by Indian or Chinese immigrants, and at least 29% have immigrant CEOs.¹⁶² Vinod Dham, an immigrant from India, is known as "Father of the Pentium" for his contribution to the design of Intel's Pentium chip.¹⁶³ In 2002, three of the top five companies in the prestigious "Silicon Valley 150" – Intel, Sun Microsystems, and Solectron — were founded by immigrants.¹⁶⁴ Others include the online auction site eBay, e-mail provider Hotmail, and Yahoo!. The box on the previous page lists additional immigrant-founded high-tech companies that have contributed to Silicon Valley's success.

Looking just at two groups, Chinese-Americans and Indian-Americans, nearly a quarter of all high-tech firms founded in the Valley since 1980 had a Chinese or Indian CEO. In 2000, Chinese- and Indian-run high-tech firms achieved a collective \$19.5 billion in sales and provided the Valley with 72,839 jobs.¹⁶⁵

Immigrant-run high-tech firms tend to be slightly smaller than average for the region, but are highly productive. High-tech companies in Silicon Valley had an average of 37 employees per firm and sales of \$242,105 per employee. Firms with a Chinese or Indian CEO averaged just 21 employees, but Chinese-run firms were more productive with sales of \$317,555 per employee, while Indian-run firms were slightly lower than average at \$216,100 per employee.¹⁶⁶

HIGH-TECH IMMIGRANT NETWORKS

Some venture capital firms say they have had considerable success in backing tech companies founded by immigrants. They attribute this in part to what they say is immigrant entrepreneurs' more "realistic" assessment of their own skills and strengths and a resulting willingness to find someone more experienced for the job of CEO as the company grows. "They [immigrant entrepreneurs] understand that the mission is more important than the people, and they don't have such fragile egos," said C. Richard Kramlich, managing general partner of the venture capital firm New Enterprise Associates (NEA). In contrast, he says, other tech company founders are often "[unwilling] to accept any role but president and CEO", even though their skills are technological, not managerial.¹⁷⁴

But a larger reason for immigrant entrepreneurs' success may lie in their immigrant status itself, and the connection it gives them with their nation of birth. Immigrants who come to California can maintain ties with their home country, thereby opening it up for trade with the U.S. An Indian immigrant working in a high-tech company, for example, may be able to use his or her relationships and familiarity with the region to find new customers in India who would not have been reached by traditional marketing. One California study found that when the number of first-generation immigrants from a particular country increases by 1%, the value of California exports bought by that country goes up by 0.5%.¹⁷⁵

Immigrants' connections to their home countries can provide U.S. firms with everything from new technological ideas to new investment capital, as well as new markets. The key to accessing the advantages is a familiar concept in the high-tech world: networking.

Immigrant entrepreneurs create social and professional networks that enable information, ideas, goods and capital to flow across corporate, industry

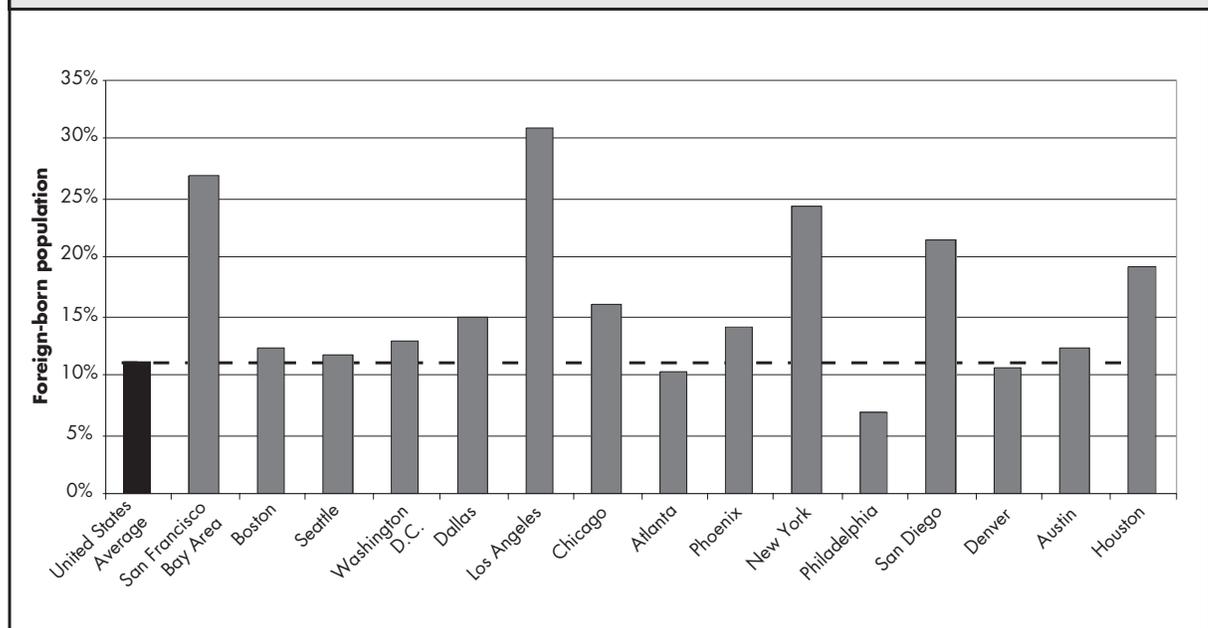
and national boundaries. They often build personal networks both here and in their home region, and spend considerable time and effort maintaining those networks. A 2001 survey of Taiwanese high-tech workers found that 26% fly to Taiwan for business at least twice a year.¹⁷⁶ To formalize these relationships, immigrants in Santa Clara County have formed dozens of professional and technical associations, which further enhance the high-tech industry and regional economy by facilitating networking, sharing of information and strategies, and supporting entrepreneurship. Many of them also bring in foreign capital and resources to the valley by building connections with industry and investors in their home countries; several sponsor annual investment conferences specifically to attract investors from Asia to support Silicon Valley companies. As a result, in the 1990s Silicon Valley reaped the benefits of fast-growing flows of capital from overseas, especially from Taiwan, Singapore, and Hong Kong.

A sampling of these professional groups includes the

Silicon Valley Indian Professionals Association, with 1,000 members; the Chinese Software Professionals Association, with 1,400 members; and the Monte Jade Science and Technology Association, which includes 150 corporations as well as 300 individual members and helps to promote technological cooperation and investment between Taiwan and firms in the United States.¹⁷⁷ High-tech Indian immigrants have successfully worked to establish a “sister state” relationship between California and the Indian state of Punjab to help increase trade between the two states. Says Jessie Singh, a Punjabi immigrant who runs a technology company in Milpitas, of how his connections to India have built greater access for his U.S. firm: “You understand the local language, their customs and behaviors. You have connections, family and friends. You understand how the system works. You have a little more power.”¹⁷⁸

By building business connections with their home countries, immigrant entrepreneurs and networks also help U.S. firms to sell their products and servic-

FIGURE 4.1. IMMIGRANT POPULATION IN THE TOP 15 HIGH-TECH REGIONS



Source: U.S. Census Bureau, Census 2000 Summary File 4 Sample Data.

es in those countries' markets. Immigrants' familiarity with another region's language and culture further contribute towards successful marketing in that region, helping companies to become globally competitive. It is probably not a coincidence that the high-tech industries with high proportions of skilled immigrant workers are also among the state's largest exporters.¹⁷⁹

In today's high-tech economy, successful companies are those which can find international partners, market their products worldwide, and negotiate cultural differences. The social capital that immigrants bring has allowed Silicon Valley firms to become frontrunners in this globally competitive industry.¹⁸⁰

IMMIGRANTS ARE KEY TO SUCCESS OF HIGH-TECH REGIONS

Indeed, throughout the nation, cities with high concentration of immigrants are more likely to be successful centers of high-tech industry. A study by the Brookings Institutions compared metropolitan areas'

success as technology centers (measured by the Milkin Tech-Pole Index) and their proportion of foreign-born residents. It found a strong positive correlation between high concentrations of foreign-born residents and the growth of the high-technology industry; out of the top ten metropolitan areas with the highest proportion of immigrants, eight of them are among the nation's top 15 high-tech regions. As shown in Figure 4.1, nearly all of the nation's top high-tech regions have higher than average concentrations of immigrants.

The researchers postulate that this reflects not just the fact that immigrants fill workforce gaps, but also that regions with ethnic and cultural diversity and high levels of tolerance for people's differences are more successful at attracting talented high-tech workers and investors. These "diverse, inclusive communities" create "low barriers of entry to human capital," meaning that people with different, creative, and innovative ideas are welcome and nurtured; and these are the ideas on which the high-tech industry thrives.¹⁸¹

V. CHALLENGES

As we have seen, immigration is beneficial – even essential – to the California economy. Yet immigration also creates challenges in both the economic and social spheres. This final section briefly describes some of the immigration-related issues faced by our state.

CHALLENGES OF A CHANGING POPULATION

The United States is a nation perpetually in motion; it has weathered many demographic shifts and become the stronger for it. From the geographic expansion of the 19th century, to the massive wave of East European immigration, to women’s ongoing move into the workplace, all the way to today’s “graying” of the population, every major demographic change has brought with it unique challenges, and each unsettled society in some ways before a new equilibrium was attained. The current wave of immigrants is no exception.

One facet of today’s immigration to which our state and nation are struggling to adapt is language. The United States as a multilingual nation is hardly a new concept – it has been thus in several eras, going back to the early waves of immigrants from Germany and Ireland if not before — but more recently, many residents have grown accustomed to speaking, hearing and expecting English only. Yet English is not the first language of most immigrants, and many do not speak English at all.

Despite the language barriers faced by recent arrivals, there is little chance of developing permanent sub-cultures of monolingual non-English speakers in the U.S. Nearly all second-generation Latino immigrants (93%) learn fluent English, and by the third generation 100% have learned English, for example.¹⁸² But so long as there are new immigrants coming from non-English-speaking nations, there will be a need for the U.S. to recognize and adapt to the presence of non-English speaking workers and community members.

Most new immigrants want to learn English, but it is impossible to develop fluency in a new language overnight. It takes time. While new residents are learning, they will remain dependent upon information and communication in their native language. In addition, first-generation adult immigrants often have all their time taken up by work and caring for family, leaving them with no spare hours to learn a language, while others are elderly and may no longer be able to develop fluency.

Improving access to and quality of classes in English as a Second Language (ESL) is a partial solution. But

equally important is ensuring that residents with limited English proficiency, including new arrivals, are not isolated from the rest of society. The state of California has made progress on several fronts towards integration of non-English speakers: a series of state laws (most recently SB 987, passed in 2002) require equal access to state agencies for residents with limited English proficiency, and AB 800, passed in 2001, added to the California Fair Employment and Housing Act a prohibition against employers requiring employees to speak only in English unless they have a valid business reason.¹⁸³ The latter statute supports bilingual employees as well as those with limited English proficiency, as it prevents employers from firing workers simply for speaking non-English languages amongst themselves.

Yet on other fronts there is a concern that state and national policies are moving towards more isolation rather than less. At the federal level, although Title VI of the Civil Rights Act prohibits recipients of federal funding from discriminating against limited English proficient persons on the basis of national origin, in 2001 the Supreme Court declared that individuals who have been discriminated against cannot sue under this provision.¹⁸⁴ Though immigrants in California have other resources under state law, this ruling may still have a chilling effect, signaling an overall attitude that seeks to isolate immigrants from the larger society. A similar effect may have arisen as a result of Proposition 227 in California, which outlawed many forms of bilingual education in public schools.

In addition to language, there are many other aspects of the latest waves of immigration to which our society has yet to fully adapt. Although the U.S. has weathered numerous demographic shifts, these transitions have often been rough and brought about considerable injury and injustice along the way. Understanding what is happening and designing policy changes based upon that understanding could smooth out this latest transition.

DIFFERENT STANDARDS AND TREATMENT UNDER THE LAW

In some cases, public policies concerning immigration, rather than immigration per se, are the cause of seemingly immigrant-related problems. When immigrant workers are treated differently from other workers, or immigrant residents treated differently than other residents, it creates disparities which may harm U.S.-born residents, immigrants, or both.

For example, immigrants who do not have citizenship or a green card are subject, in varying degrees, to conditions which prevent them from enjoying the protections of labor law. Many of these protections are considered basic human rights, yet immigrant workers may find that either the laws do not apply to them, or they are unable to demand enforcement of the laws for fear of deportation. Not only does this bring about all the problems inherent to a two-tiered society, it creates a perverse incentive for employers not to hire U.S. citizens or green card holders. If undocumented immigrants or those on specialized visas are not subject to certain labor laws, or if they are unlikely to quit and reluctant to complain about substandard conditions out of fear and because they see no other opportunities are open to them, then employers have an economic inducement (at least over the short term) to prefer undocumented immigrants over legal workers. This harms both undocumented immigrants who are made vulnerable to exploitation and citizens/legal workers who have fewer work opportunities. It also tends to drag down labor standards overall, especially in industries where many employers hire undocumented or restricted-visa workers.

A 2002 decision of the U.S. Supreme Court has worsened this situation. *Hoffman Plastic Compounds v. NLRB* denied undocumented workers who are illegally fired for workplace organizing the right to back pay, effectively meaning that employers can violate this section of labor law with no penalty if their employees lack immigration papers. Recognizing the

danger to society of such a double standard, the state of California in 2002 passed SB 1818 affirming that state labor, employment, civil rights, and employee housing laws apply to all regardless of immigration status.¹⁸⁵ The California Department of Industrial Relations has issued a statement clarifying that all workers are protected by state labor laws and that it will continue to “vigorously enforce” these laws.¹⁸⁶ Even with these responses, the effects of Hoffman have been felt by immigrant workers through an atmosphere of increased fear and intimidation on the job.

This atmosphere can be toxic. Immigrant workers often do not question or object to hazardous work either because they fear the employer will fire or deport them, or because of linguistic or cultural barriers. As a result, Mexican-American immigrant workers nationwide are 80% more likely than U.S.-born workers to be killed in a work-related accident; one Mexican-American worker dies on the job every day. The death rate has grown dramatically in the last decade, with the large majority of these deaths due to inadequate health and safety precautions by the employer. In California the situation is not as bad; Mexican immigrant workers are still more likely than the U.S.-born to be killed on the job, but their death rate has fallen and is lower than in other states.¹⁸⁷

The effects of different legal standards can also be seen in unionization rates for immigrants and non-immigrants. In the Bay Area, 26% of African-Americans belong to a union along with 17% of U.S.-born Anglos and 23% of U.S.-born Latinos. But only 14% of foreign-born Latinos and 12% of foreign-born Asians are union members. Recent immigrants are much less likely to be unionized than those who have been here for a decade or more, and Latino immigrants are more likely to be unionized in the Bay Area than in Los Angeles (14% versus 9.5%).¹⁸⁸ In part these differences are related to employment patterns; unionization rates are highest in the public sector, and few immigrants, especially recent arrivals, can work in government jobs. But it

also reflects the higher barriers faced by immigrants attempting to unionize, in particular the fear of job loss or deportation.

Unequal treatment under the law can threaten public safety as well as safety at work. Particularly dangerous is the proposal that state and local police enforce federal immigration laws, which essentially removes undocumented immigrants’ ability to report crime, cooperate with investigations, or otherwise interact with police for fear of detention and deportation. State and local police consistently enforce criminal immigration laws, but generally do not enforce civil immigration laws, that being the province of the Bureau of Immigration and Customs Enforcement (BICE) and other federal agencies. Many local police agencies in fact have explicit policies placing civil immigration law outside their purview; they find that public safety is best served when the police have the trust of the local community.

However, in some states (though not California) state and/or local police have begun to enforce civil immigration law as well. The CLEAR Act (HR 2671), introduced in Congress in July 2003, would spread this practice nationwide, requiring enforcement of federal civil immigration laws by state and local police, if it were to pass.

Not only undocumented, but even legally present immigrants might avoid the police under this regimen, since in practice local immigration enforcement often leads to racial profiling and harassment of anyone who looks or sounds “foreign”. In addition to the dangers associated with creating fear of local police, this may be seen as yet another effort to shift the costs associated with federal immigration policy onto state and local governments. Taking on yet another duty would drain resources from local law enforcement.¹⁸⁹

An additional threat to public safety lies in the denial of drivers’ licenses to undocumented immigrants. Undocumented immigrants could obtain drivers’ licenses in California (as in most other states) until a

1994 state law made them ineligible. Yet most need their cars to get to work or to take their children to school; this law therefore leads to substantial numbers of unlicensed drivers on the road. In Santa Clara County, it is routine for unlicensed drivers to be charged and fined in traffic court.¹⁹⁰ These residents' inability to obtain licenses and auto insurance puts all drivers at greater risk.¹⁹¹

TAX POLICY LEADS TO UNEVEN DISTRIBUTION OF COSTS AND REVENUES

As discussed under Fiscal Impacts above, immigrants pay relatively more taxes to the federal government, but state and local governments incur more of the cost of providing benefits to immigrants, and their share of the burden is growing.¹⁹² In essence, the federal government sets immigration policy and gets immigrants' tax dollars while states and localities are stuck with the tab. Thus, although immigrants' total tax burden more than pays for government expenditures on their behalf, on a local level this may not be so. Another method of cost-shifting, mentioned in the previous section, is requiring state and local police to expend their resources on enforcing federal immigration laws, which is properly the job of federal employees. This unbalanced distribution of funding and responsibilities creates excessive costs for states and communities with large immigrant populations.

IMMIGRATION STATUS AND BUREAUCRACY

Underlying many of the policy problems surrounding immigration, in particular those affecting undocumented immigrants, is the difficulty of obtaining a green card and/or U.S. citizenship. The number of people who want to work in the U.S. far exceeds the number of available green cards, especially for countries such as Mexico whose geographic and socioeconomic relationship with the U.S. makes a cross-border labor flow a natural phenomenon. Even for those who qualify for green cards or for citizenship,

bureaucracy and long waiting lists means that obtaining the desired residency status can take years.

As a result of these difficulties, immigration advice scams have become notorious in California. For example, businesses calling themselves *notarios* have flourished in the state by promising to help their clients obtain green cards. While some deliver legitimate and useful services, *notarios* are not immigration lawyers, and too often they take hopeful immigrants' money and deliver nothing – or worse, falsify documentation without their clients' knowledge, leading to charges and deportations of immigrants who believed their papers were in order.¹⁹³ In January 2004, two San Jose practitioners were charged with defrauding immigrants of more than \$500,000 by charging \$6,000 per person for green cards and other documents they could not deliver.¹⁹⁴

The Bay Area has seen countless stories of immigrant families uprooted after being misled by bad advice or simply stymied by bureaucracy. In spring 2004, the Cuevas family – Delfin and Angelita, their son Dale, and their daughters Donna and Dominique – were deported to the Philippines after 20 years living in the California. The parents had applied for legal status in 1996, but were rejected. Despite broad community support, the Cuevases lost their fight to stay in the States, forcing the family to leave and Dale and Dominique to abandon their studies at DeAnza College and San Jose State. The Cuevases' story is echoed by families every day who try and fail to legalize their lives.¹⁹⁵

Taking the quest for legal status to the extreme is a popular Spanish-language reality TV show, watched by 1 million Latino households weekly, called “Gana la Verde” – “Win the Green.” In it, contestants compete in performing “Fear Factor”-like stunts. The prize: a free year of legal aid from immigration attorneys to assist the winner in applying for a green card.¹⁹⁶ Immigrants' willingness to go to such extremes for an uncertain chance – a green card is not guaranteed – indicates that the supply of green cards has been restricted to unreasonably low levels.

This is evidence of a gross imbalance between supply and demand.

While green cards confer the ability to be legally employed and other basic rights, U.S. citizenship is necessary in order for immigrants to fully participate in civil society. In addition, immigrants who obtain citizenship status can access federal programs, reversing some of the cost-shift to the states.

Santa Clara County's Citizenship Initiative, launched in 1997, has been a model program with many innovative aspects, and has helped more than 85,000 low-income immigrants to obtain citizenship. But its funding is now being cut (with the biggest decline coming from elimination of state funding) and the capacity of organizations in the county to support

immigrants and help them obtain citizenship has been sharply reduced.¹⁹⁷ The county and community organizations lost an estimated 60% of their citizenship services capacity in 2003.¹⁹⁸ Rights and responsibilities of U.S. citizenship which non-citizen immigrants lack include: voting and electoral representation; access to the federal safety net; the right to reunification with family members in other countries; the right to hold federal jobs (for example, many immigrant airport screeners lost their jobs when the positions were federalized); the right to hold most public offices; jury duty; the right not to be detained for long periods without a trial; the right not to be deported; ability to travel with a U.S. passport; ability to live in another country if necessary without being barred from the United States upon return.¹⁹⁹

VI. CONCLUSION

Immigrants are a valuable and inextricable part of the Santa Clara County and California economies. They pay taxes at approximately the same rate as U.S.-born citizens, and are more likely to be employed and far less likely to use welfare. Immigrants make up nearly one-third of the state's workforce, and founded one-quarter to one-third of all high-tech businesses in Silicon Valley.

From 1970 to 1999, California's economy grew nearly twice as fast as in the U.S. as a whole, with immigration one of the primary engines driving the state's success. Continuing immigration will be even more vital in the future. As the "baby boom" generation ages, we will be faced with a shrinking working-age population and a growing population of retirees needing services. Absent immigration, there will be no one able and willing to fill the expanding number of service sector jobs, many in crucial industries such as health care. Immigration is also crucial to shoring up the Social Security system, which will suffer a similar blow as the baby boomers retire.

It is impossible to imagine Santa Clara County without immigrants, and economic analysis bears this out: lacking immigration, Silicon Valley as we know it simply could not exist. What would the Valley be without Yahoo!, without eBay, without Intel, Sun, or Hotmail?

Yet policy challenges in dealing with immigration and immigrants remain. Many of these are attribut-

able not to immigration per se, but to the maze of restrictive and often contradictory laws which surround it. Immigration laws today are out of step with the way people live and the way our economy functions. Immigration is essential to the economy, yet current policies severely restrict entry of immigrant workers, or place conditions on their employment.

These artificial restrictions have led to undesirable and counterproductive outcomes, including a black market industry which brings undocumented immigrant workers to U.S. employers, and a two-tiered workforce structure that provides perverse incentives to employers. In industries such as agriculture, employers are known to prefer new immigrants (especially the undocumented) as employees instead of more established immigrants or U.S.-born citizens, because they can be paid lower wages and are easier to control. This results in employers deliberately maintaining high turnover rates and recruiting a steady stream of new immigrants. The precarious legal status of immigrant workers – even those who

are here legally – pushes many into the informal or underground economy, artificially lowering wages and allowing unsafe working conditions to proliferate. Immigration laws also discourage employers from investing in the “human capital” of their workers through training and education, since from the employer’s perspective, such investment will be wasted if workers are forced to leave the country.

The solution is a more realistic immigration policy that is in tune with economic realities in California and the nation and will treat working immigrants just like any other working family. Key points of

such a policy would include legalization and citizenship opportunities for those immigrants already here, equal application of labor and employment law to both immigrants and U.S.-born citizens, and a reevaluation of immigration quotas in light of the United States’ present and future labor force needs. The details and implementation of a reworked immigration policy will need to be worked out in a broader forum and must include social as well as economic considerations. But hopefully the information in this report will help to inform the debate and spur us all to constructive action.

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WORKING PARTNERSHIPS USA

Working Partnerships USA (WPUSA) was formed in 1995 as a collaboration among community-based organizations to develop institutional and public policy responses to the negative impacts of the Silicon Valley's new economy on working families. We endeavor to accomplish our mission both by bringing a much wider range of voices to the table in discussions of economic development strategies, workforce development and employment policy, and by designing programs to reduce inequity and improve the security and quality of living of working families in the New Economy.

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