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Good morning, Mr. Chairman, Mr. Ranking Minority Member, and, and Members of the Committee. I am very grateful for the opportunity to testify today on behalf of the U.S. Business and Industry Council and its 1,500 member companies on using a skills-based point system to help implement an employment-based immigration policy.

USBIC, which since 1933 has been representing family-owned companies – mainly small and medium-sized manufacturers – has been deeply concerned about U.S. immigration policy for the last two decades. We have watched with dismay how U.S. policy during this period has regressed into a de facto Open Borders stance that is endangering our national security and undermining wages and benefits throughout the labor force.

Shifting America's immigration policy from one focusing tightly on family unification to one focused on serving the nation's long-term economic interests in principle would be a most welcome step. Skills-based point systems like those used in countries such as Canada and Australia have the potential to help achieve this objective.

At the same time, such mechanisms need to be constructed and used with great care. In particular, labor markets are highly dynamic – even volatile – systems. The stream of data that they constantly emit does not necessarily reveal the most important trends and developments that shape these markets over the long run. In fact, the endless barrage of short-term numbers can conceal or obscure these more enduring underlying trends. As a result, they are all too capable of sending public policy down counterproductive tracks. And they could easily place policymakers in the risky position of trying to secondguess economic and business dynamics best left to work themselves out. That is to say, the short-term employment figures should not be confused with reliable data about genuine economic fundamentals.

The broad goal of somehow linking immigration policy to the economy's major needs makes good sense. The advantages of awarding preferences of some kind to immigration applicants likely to be productive and innovative instead of applicants likely to be economic dead weights (at least for the foreseeable future) should be obvious. In addition, immigration policy should try to take the economy's performance into account as well. If the entire economy is booming on a sustainable basis, relatively higher inflows would seem advisable. If the economy is mired in a lengthy downturn, reducing immigration levels arguably would preserve more jobs for citizens who are workers – the worker group deserving of first priority in U.S. immigration policy – and for non-citizens residing in the United States legally.

Governments can also reasonably hope to gear immigration policy toward long-term trends affecting more specific sectors of the economy. An immigration policy favoring manual typewriter repairers clearly deserves less support than one favoring computer network architects.

The point systems in place in Canada, Australia, and New Zealand represent serious efforts to turn these insights into policy. Although Canada's point system assigns less weight to its economy's specific occupational needs, it still attempts to match newcomers with particular industries. In its skilled worker program, it places a premium on highly specialized skills ranging from butcher to welder to Ph.D. mathematician, and even assigns these different skills varying weights. Australia goes so far as to publish an “Occupations in Demand” list every six months that is based on comprehensive labor market research, including consultations with individual employers and business groups. New Zealand awards bonuses for applicants in sectors identified as “growth areas,” “future growth areas,” or areas of “absolute skills shortage.”

U.S. policymakers, however, should think long and hard before turning such programs into the core of a new U.S. immigration policy. They should pay special attention to the pitfalls of trying to fine tune labor markets.

First, in a genuine market-dominated economy, the very idea of a chronic labor shortage – much less a chronic shortage that the government should try to mitigate – is deeply controversial. It should be viewed skeptically not only by theorists, but by policymakers. .After all, if we believe in free markets, we believe that the supply of anything – including human labor and talent – is a function of the price offered to that labor. The converse is true as well. So a mismatch between labor supply and labor demand must not automatically be interpreted as a problematic shortage – especially since in the real world, even the most efficient markets will often take some time to adjust fully to changing conditions.

Thus, what is characterized as a labor shortage nowadays is often simply an instance of employers failing to pay wages high enough to attract the workers they say they need. Why should government address this situation through immigration policy at all?

Indeed, this uncertainty reflects the second reason to be careful about fine-tuning labor markets. Longer-lasting labor shortages in theory and historically have been precursors to highly desirable economic change.

For example, the United States has always been a labor-short country. That's of course a main reason we have been so open to immigration for so much of our history. Yet the enduring scarcity of labor also has produced major advantages for our country. Specifically, it has generated much of the technological progress and many of the productivity gains we have achieved.

Economic theory provides a very convincing explanation why. When businesses conclude that the price of scarce labor has become excessive, powerful incentives emerge for them to substitute capital and technology for labor. And that means innovation. Our country owes much of its longstanding world leadership in most technology areas to this genuinely chronic scarcity and thus relatively high price of labor. Preventing shortages with immigration policy could weakn this proven spur to technological progress and all the benefits it brings.

Sectors of the economy claiming or actually experiencing genuine labor shortages may be sending another market signal that we ignore at our peril – that their businesses are not viable, and thus don't deserve to survive, at least not in their present form. Many of the loudest, most persistent claims of labor shortages – and of the need for eased immigration controls – come from the service sector of the American economy, especially industries such as hospitality, entertainment, cleaning services, and building management. These industries also argue that they can't raise wages easily because their margins typically are so slim. Often they have a point. They also argue, with some justification, that they cannot easily automate or mechanize or digitize.

Yet assisting them with greater immigration flows could amount to overlooking vitally important economic realities. It could overlook – and reward – a failure to innovate managerially, to increase efficiency and productivity by reorganizing physical operating arrangements, or simplifying administrative procedures, or simply motivating employees more effectively through non-wage incentives.

In other words, companies – or entire sectors of the economy – heavily dependent on rock-bottom wages for their profitability and even survival may not be companies or sectors deserving to survive. Their confessed inability to make money by raising prices constitutes powerful evidence that their product or service simply is not in great demand. Why should government seek to overturn the market's verdict in such instances?

A third reason to be careful about using immigration policy to stabilize labor markets stems from the inherent complexity of the signals provided by wage and broader compensation levels. Compensation is of course powerfully influenced by the supply of labor in a given market at a given time, but the relationship is hardly mechanical. The most important complexity is that, although stagnant or declining compensation almost always represent conclusive evidence of a labor surplus, rising compensation is not always similarly conclusive evidence of a short- or long-term labor shortage – especially one that can or should be remedied through immigration For rising compensation can often reflect circumstances having nothing to do with economic fundamentals.

Support for the proposition about falling wages comes from recent trends in sectors of the economy that use illegal immigrant labor heavily. The National Restaurant Association, for example, recently told the press that this industry will need nearly two million workers in the near future but “doesn’t know where they will come from.” Yet data from the U.S. Bureau of Labor Statistics shows that inflation-adjusted wages for the broad Food Services and Drinking Establishments industry fell 1.65 percent between 2000 and 2005.

The hotel industry has made similar claims. Yet according to BLS data, real-wages in this sector fell by nearly 1 percent from 2000 to 20005. Even in the construction industry, which in recent years has been servicing the great housing and real estate boom in world history, inflation-adjusted wages fell 1.59 percent between 2000 and 2005. Similar figures can be found for other illegal immigrant-heavy service sectors, such as dry cleaning and laundry services, parking facilities, golf courses and country clubs, as well as food manufacturing.

If employers in these sectors have truly been clamoring and competing for more workers, how could real wages have fallen? How could employers have hoped to attract the workers they need by making the jobs they are struggling to fill less attractive? But more than simple common sense points to the existence of labor gluts in these sectors during this period. Wages in most illegal immigrant-heavy sectors of the economy followed a common pattern in the first five years of this decade. Until about 2002 or 2003, real wages in these industries actually tended to rise a bit. Yet soon after, they dropped significantly. Obviously, employers in these sectors decided that their labor costs had grown excessive, and in response stepped up efforts to bring Mexican and Central American labor markets and standards into the United States.

Why, however, don't wage increases similarly signal labor shortages. One key reason: Long-term labor contracts, and especially union contracts, can provide for pay and benefits increases even when companies run into trouble, and may well want to cut labor costs. These contracts can also set floors that for political reasons can be exceedingly difficult to breach. Rising compensation can also stem from errors in managing other areas of public policy.

For example, the media is filled with articles about alleged shortages of skilled manufacturing workers. A case in point is an August 15 Wall Street Journal article about the scarcity of welders. For two decades, the Journal reported, "welding, a dirty and dangerous job, has fallen out of favor" in the United States. Yet with industrial production recovering several years ago and remaining strong, wages and benefits are skyrocketing, and manufacturers now ostensibly are at their wit's end. Nor, apparently, is outsourcing the work to low-wage countries like China the answer in every situation – yet.

But would opening the doors to large numbers of immigrant welders be the best answer for the long-term interests of the U.S. economy, or of native-born workers? That seems unlikely, since a major root cause of the shortage arguably would remain unaddressed. It is entirely possible that the welder and broader skilled manufacturing worker shortages stem not from the "dirty and dangerous" nature of the work, but from the steep decline in manufacturing employment – and future employment opportunities – and still-depressed output levels in many non-electrical machinery industries in particular that have characterized the U.S. economy recently.

Wittingly or not, American policymakers have sent the native-born labor force a clear message: that maintaining manufacturing employment opportunities is simply not valued in Washington. With no evidence that this official indifference to manufacturing employment will change anytime soon, why would any prospective welder in his right mind actually have started down such a career path in the last decade or two? Who could blame young Americans for shunning such occupations? From the standpoint of promoting the creation of high-wage job opportunities for native-born Americans – which, again, must be the U.S. government's top immigration and labor policy priority – the best solutions to this labor shortage would be measures to create confidence that manufacturing production employment in America has a solid long-term future. This means major adjustments in various regulatory and tax policies, and in our international trade policies.

The final reason to be cautious about implementing Canadian- or Australian-style point systems concerns problems that could result from the focus on skilled workers. As suggested earlier, an immigration policy placing a premium on highly skilled and educated immigration applicants can in principal create significant benefits for the American economy. Nonetheless, the risks that exist in principal – and that show signs of real-world effects – must not be overlooked.

As is well known, the United States has had something like such a policy in place in the form of its various visa programs designed for employers needing special skills ostensibly not available in sufficient amounts in the native-born labor force. In sectors such as information technology services, however, an impressive body of evidence shows that the ease with which these programs can be implemented poorly, and their enforcement requirements neglected, is depressing wages in these knowledge-intensive areas.

Turning high-wage jobs into much lower-wage jobs may serve the short-term interests of U.S.-owned and located technology companies. But this growing trend is having dangerous consequences for the foundations of America's technology leadership. For it looks to be discouraging many of the best and brightest young Americans from pursuing science and technology careers. The education and skill premiums previously enjoyed by such workers are shrinking steadily. Given the long and often expensive years of schooling generally required to gain world-class information technology expertise, young people quite understandably seem to be shying away from degree programs in the most relevant academic disciplines. These trends, of course, threaten not only our nation's future pool of the scientists and engineers available for private industry. They threaten our future pool of potential researchers – those scientists we need to ensure a continuing series of breakthrough discoveries.

Unless one supposes that the native-born pool of potential high tech workers can or should be largely replaced by a supply of immigrant high tech workers, the possible problems created by a focus on skills should become clear.

Some relatively broad and relatively narrow policy recommendations might help Washington maximize the benefits and minimize the risks of point systems. In general, the bias in these systems should be toward generic education levels and skill endowments, not toward more specific occupational experience or qualifications. In this sense, Canada's recently revised system points the way, placing more emphasis on attributes that will help immigrants adapt readily to the rapid rate of contemporary economic change. In the process, this program adds to the entire country's economic flexibility.

Because genuine labor market fundamentals are so difficult to identify, responsibility for spotting them and recommending changes in immigration policy could be awarded to an independent federal commission containing representatives from the worlds of labor and academe as well as business. Still, the commission's charter should include a significant bias against efforts to micro-manage labor markets. An unmistakable burden of proof should be placed on recommendations to intervene.

Alternatively, if a smaller government role is desired, Washington could authorize companies and industries to certify the existence of chronic labor shortages easable only through higher immigration flows. Yet because employers and their organizations have made so many false claims of such shortages in the past, heavy penalties – including possibly criminal penalties – should attach for abuses of this system.

This Committee's interest in bringing economic rationality to American immigration policy is most encouraging. As the Chairman and the Committee Members continue to examine this option, I hope they will stay mindful of both the potential pluses and minuses of different reform proposals. I also hope they will not forget that, all else equal, it is entirely possible that the most economically rational policy will entail the lightest degree of intervention in labor markets.

Thank you again for your interest in these thoughts. I and the U.S. Business and Industry Council look forward to working with the Committee to improve our immigration policies.