

## LABOR MOBILITY

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Labor mobility is an important part of a free economy. Immigrant entrepreneurs have founded some of America's most iconic businesses—including Warner Brothers, Anheuser-Busch, Goya Foods, Goldman Sachs, Paramount Pictures, Sbarro, Forever 21, Google, Intel, Sun Microsystems, Yahoo!, Kraft, Pfizer, eBay, Nordstrom, and AT&T. In New York City alone, 70,000 immigrants own small businesses, including 90 percent of the city's laundry and taxi services. Studies find that immigrants are twice as likely as native-born Americans to found new businesses. Accordingly, America's employment system needs to be welcoming to immigrant entrepreneurs. At present, it is not. Moreover, efforts to clamp down on undocumented immigrants have led to unreasonable burdens being placed on employers, as the federal government outsources its policing function to them.

### Congress should:

- ◆ Pass legislation introducing a more flexible and attractive immigrant visa program.
- ◆ Resist moves to make the E-Verify program, run by U.S. Citizenship and Immigration Services (USCIS), mandatory and preferably defund the program.

**Immigrant Visas.** America has no visa designated specifically for entrepreneurs. Most immigrants and immigrant entrepreneurs enter the country through family relations or employer-sponsored visas before they can start their own businesses. Google's Sergey Brin and eBay's Pierre Omidyar, for example, entered through the family-based immigration process. Talented foreigners without such connections must first find an employer willing to sponsor them. Then, they must usually wait years in the immigration queue before being allowed to enter. And when they finally arrive, they do so only as employees, not entrepreneurs.

America needs a genuine entrepreneurship visa, one that offers a clear path to permanent residency to any foreign-born, venture-backed founder of a new business in the United States, without further restrictions. That need should form the basis of a future bill.

Visas for entrepreneurs who invest in their own businesses are available, but with major restrictions. The E-2 treaty investor visa requires investors to justify their presence to the government every two years, and it excludes some major countries, including China, India, and Brazil. The E-2 and the EB-5 investor visa, which grants applicants a conditional visa, can be used to start businesses, but both base their requirements on specific investment levels that are too high for most new entrepreneurs to meet. The E-2 requires foreign immigrant investors to own 51 percent of the business and to have a personal minimum investment of \$100,000 or more. The EB-5 requires an investment of at least \$1 million, and the investor must prove that the investment has created at least 10 full-time jobs within two years.

A true entrepreneur visa would be established on the basis of what we know about how our domestic entrepreneurs start their businesses. According to the Internal Revenue Service, nonfarm sole proprietorships had average annual revenues of less than \$60,000 in 2008. For small businesses, median annual revenue was \$182,000 in 2012. Previous versions of entrepreneur visa proposals have required very high clearance levels by comparison with those realities. As of 2010, just 5.3 percent of immigrant-owned businesses began with startup capital of more than \$250,000, the level needed for a renewal under the recent X visa proposal. Only 12.2 percent had \$100,000 or more. Barely a quarter started with over \$25,000.

**E-Verify.** In its current form, E-Verify is a voluntary Internet-based program run by U.S. Citizenship and Immigration Services, aimed at providing confirmation that a worker is eligible to work in the United States. The program compares the employee's I-9 form with U.S. government records. In the event of a mismatch, the program alerts the employer and gives the employer and the employee eight weeks to establish that the worker has the correct authorization to work.

E-Verify will result in at least 1.8 million erroneous initial non-confirmations over the next decade, requiring legal employees to sort out those errors at federal offices. The process will, on average, cost legal employees who receive initial nonconfirma-

tions \$280 per error to resolve—or nearly \$50.5 million per year. Employees who receive a tentative nonconfirmation must resolve it at their own expense and on their own time, an especially costly burden for workers living in rural areas.

According to USCIS testimony, E-Verify would cause an estimated 40,000 authorized workers to lose their jobs annually because of erroneous final nonconfirmations, costing affected workers about \$134 million in lost wages per year.

Furthermore, E-Verify would have a disproportionate negative effect on legal immigrants. USCIS's official E-Verify auditor, Westat, found in 2009 that naturalized citizens and authorized foreign-born workers are 26 times more likely than native-born citizens to receive a system error. Extrapolating from that finding, foreign-born individuals can expect to receive 82 percent of all errors. That implication may encourage employers to discriminate against otherwise qualified foreign-born applicants.

For employers, implementing E-Verify will be neither simple nor inexpensive. Extrapolating from the U.S. Department of Homeland Security's estimate of the costs incurred by federal contractors in using E-Verify, businesses required to use the system will face \$4.1 billion in setup costs and \$2.55 billion in annual compliance costs thereafter. Employers must learn an 88-page compliance manual and undergo training before they can participate in the E-Verify program. Under the White House proposal, which exempts businesses with fewer than five employees from the system, initial setup costs would be lower, at about \$1.7 billion. Mandatory E-Verify will return nonconfirmations to about 650,000 unauthorized workers per year at the

current rejection rate, costing businesses about \$3.95 billion per year to replace them.

Implementation of E-Verify represents enormous compliance costs for both workers and employers and an inappropriate deputization of employers by immigration authorities to do their work for them.

Congress should resist moves to make E-Verify mandatory and preferably should defund the program.

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### **For Further Reading**

- David Bier, "E-Verify Mandate Is Costly for Businesses and Workers," *WebMemo* No. 21, Competitive Enterprise Institute, April 22, 2013, <http://cei.org/sites/default/files/David%20Bier%20-%20E-Verify%20Mandate%20Is%20Costly%20for%20Businesses%20and%20Workers.pdf>.
- , "America Still Needs a True Entrepreneurship Visa," *On Point* No. 185, August 28, 2013, <https://cei.org/on-point/america-still-needs-true-entrepreneurship-visa>.
- Pia M. Orrenius and Madeline Zavodny, "How Do E-Verify Mandates Affect Unauthorized Immigrant Workers?" Working Paper No. 1403, Federal Reserve Bank of Dallas, 2014, <https://www.dallasfed.org/assets/documents/research/papers/2014/wp1403.pdf>.
- U.S. Chamber of Commerce, "Increasing Pension Premiums: The Impact on Jobs and Economic Growth," May 14, 2014, <https://www.uschamber.com/report/increasing-pension-premiums-impact-jobs-and-economic-growth>.