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Revitalizing the Golden State

What Legalization Over Deportation Could Mean to California and Los Angeles County

Raul Hinojosa-Ojeda and Marshall Fitz April 2011

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Introduction and summary

California is home to nearly 10 million immigrants, more than one quarter of the state's population. Of those, 2.7 million are undocumented, and the vast majority of them have been living in the United States for more than 10 years.¹ California's immigrant contributions to the Golden State cannot be overstated. From Cesar Chavez, the pioneering agricultural labor-rights leader in the 20th century to Sergei Brin, the Russian entrepreneur behind one of the 21st century's most revolutionary companies, Google Inc., the foreign born and their descendants are woven into the state's cultural and economic fabric.

Still, that reality has not prevented some Californians, frustrated with our broken federal immigration system, to call for an Arizona-style "papers please" approach. In fact, a Tea Party activist and former chair of the Sonoma County Republican Party is currently organizing a petition drive to put a similar measure before the California voters on the next ballot.²

California is no stranger to anti-immigrant sentiment. This immigrant-rich state has grappled with issues related to legal and illegal immigration for decades. In 1994, then-Gov. Pete Wilson staked his political fortunes to a measure similar to S.B. 1070, Arizona's immigration enforcement law. The Wilson-backed measure—known as Proposition 187—died in the courts but triggered a political backlash against the state's Republican establishment that persists to this day.³

Nonetheless, some state legislators in California appear willing to repeat the mistakes of 1994 by gearing up to push S.B. 1070-style legislation without considering the economic and fiscal consequences of such a move.⁴ The stated goal of this new wave of state-based enforcement legislation is to trigger a mass exodus of undocumented immigrants, by making "attrition through enforcement" the policy of state and local government agencies.⁵ The threshold question that proponents of S.B.1070-style legislation have failed to answer is whether that goal serves the economic interests of the state's constituents.

The Center for American Progress and the Immigration Policy Center recently released a report answering that question as it related to Arizona.⁶ Our economic analysis conclusively demonstrated that, if successful, S.B. 1070 would have grave consequences for the state's economy. In this report, we train our focus on California, with a separate look at Los Angeles County. We assess the economic ramifications to the state and county by answering the following two questions:

- If legislation designed to drive all undocumented immigrants from California actually accomplished that goal, what effect would it have on the state's economy and the economy of Los Angeles County?
- Conversely, what would the impact be on the California and Los Angeles County economies if undocumented immigrants acquired legal status?

Our analysis finds that the economic and fiscal consequences of widespread deportation for California and L.A. County would be even more devastating than in Arizona. When undocumented workers are taken out of the economy, the jobs they support through their labor, their consumption, and their tax payments disappear as well. Particularly during a time of profound economic uncertainty, the type of dislocation envisioned by harsh immigration enforcement policies runs directly counter to the public interest.

Conversely, our analysis shows that legalizing the undocumented population in California and L.A. County would yield significant economic benefits. Based on the historical results of the last legalization program under the Immigration Reform and Control Act of 1986, a similar program would increase wages not only for immigrants but also for their

FIGURE 1 Mass deportation versus mass legalization Costs and consequences

Deportation effects

California:

- Decrease total employment by 17.4 percent
- Eliminate 3.6 million jobs
- Shrink the state economy by \$301.6 billion
- Reduce state's tax revenues by 8.5 percent

Los Angeles County:

- Decrease total employment by 21.9 percent
- Eliminate 1.3 million jobs for immigrant and native-born workers alike
- Shrink the county economy by \$106.4 billion
- Reduce tax revenues by 11.6 percent

Legalization effects

California:

- Add 633,000 jobs
- Increase labor income by \$26.9 billion
- Increase tax revenues by \$5.3 billion

Los Angeles County:

- Add 211,000 jobs
- Increase labor income by \$10.3 billion
- Increase tax revenues by \$1.9 billion

native-born co-workers. This would generate more tax revenue and more consumer and business spending, supporting additional jobs throughout the state and L.A. County economies.

Our report estimates and compares the short-term shock to the state and county economies that would be immediately felt from a significant change in policy—deportation or legalization. Our analysis evaluates the changes in economic output, employment levels, and tax contributions on the economies of California and, more specifically, Los Angeles County arising from these divergent policy approaches. This analysis demonstrates unequivocally that undocumented immigrants don't simply "fill" jobs—they create jobs. Through the work they perform, the money they spend, and the taxes they pay, undocumented immigrants sustain the jobs of many other workers in the U.S. economy, immigrants and native-born alike.

Were undocumented immigrants to suddenly vanish, the jobs of many Americans in California and L.A. County would vanish as well. By contrast, were undocumented immigrants to acquire legal status, their wages and productivity would increase, they would spend more in our economy and pay more in taxes, and new jobs would be created. (see Figures 1 and 2)

FIGURE 2

Boosting jobs, boosting tax revenues

What California can do with \$5.3 billion in additional tax revenues from legalizing undocumented workers

- Fully fund the proposed 2011-2012 general fund expenditures for the legislative, judicial, and executive branches, state and consumer services, business transportation and housing, environmental protection, labor workforce development, nonagency departments, and statewide expenditures, with money left over⁷
- Provide in-state tuition to University of California schools for more than 300,000 students⁸
- Build and fully staff 600 new elementary schools⁹
- Provide vaccinations for half of California's children¹⁰
- Build 104 large (4-8 stories) hospitals¹¹
- Give every Californian \$143

In short, mimicking Arizona's goal of mass expulsion would be economically self-destructive to the California economy and the L.A. county economy. California went down that road in the early 1990s and accomplished nothing except to unleash a political backlash from the fastest growing demographic group in the state and nation. California should opt instead for the more forward-looking approach that puts all workers on a legal, even footing. That progressive strategy could serve as a costless stimulus to the economy that would improve the state's fiscal balances.

Economic contributions of immigrants in California and Los Angeles County today

Debates about the economic and fiscal benefits and drawbacks of immigrants typically oversimplify the role that immigrants play in our economy. But the impact that immigrants (or any cohort for that matter) have on the economy is multifaceted and complex. Nowhere in the nation is that more true than in California. Immigrants are not just workers; they are also consumers and taxpayers. The effects of their labor and consumption on economic growth and fiscal health must be factored in as we consider how to address the situation of a large undocumented workforce.

This section of the report examines the economic and fiscal contributions immigrants—documented and undocumented—currently make in California, and Los Angeles County. Although the stated goal of S.B. 1070-type initiatives is to drive undocumented immigrants from the state, the effect has been to create an inhospitable environment for all immigrants. Undocumented immigrants live in mixed-status families with legal immigrants and U.S. citizens. Measures geared toward undocumented immigrants thus hit a significantly larger population. As such, we provide a snapshot of the overall contributions immigrants make to the California and L.A. County economies in addition to the specific impacts made by undocumented immigrants. (See the Appendix on page 18 for a detailed explanation of the methodology used in this report.)

Immigrants account for a significant share of the population in California and Los Angeles. First-generation immigrant Americans as a whole accounted for 27.1 percent of the population in California, and 35.5 percent in Los Angeles County. Undocumented immigrants accounted for 7.4 percent of California's population and 10.2 percent of LA's population in 2008.¹² (see Table 1) Of course, given that immigrants are predominantly drawn to the United States in search of improved economic opportunity, large numbers of these immigrants are in the California workforce and contribute enormously to the economies of California and Los Angeles.

TABLE 1
More than a quarter of the state's population is a lot of people

Proportion of foreign-born residents in California and Los Angeles County

	California	Proportion of total population	Los Angeles	Proportion of total population
Total population	36,418,499	100%	9,832,137	100%
Legal foreign born*	7,155,606	19.6%	2,491,729	25.3%
Undocumented	2,700,000	7.4%	1,000,000	10.2%
Total foreign born	9,855,606	27.1%	3,491,729	35.5%

Source: Pew Hispanic Center estimates and 2006-2008 American Community Survey estimates.

* Includes naturalized citizens.

Note: These figures represent the total population, not just estimates of those residents active in the labor force. The undocumented estimates were constructed based on figures published by the Pew Hispanic Center (Passel & Cohn 2009). The category "Legal Foreign-Born" was obtained by subtracting the estimated undocumented population (Passel & Cohn 2009) from the estimated number of non-citizen residents in the 2006-2008 American Community Survey.

Immigrant workers as a whole added \$492 billion to California's gross state product—the total value added by workers of goods and services produced in the state—in 2008. The undocumented workforce by itself accounted for \$158 billion of this GSP. Looking at economic output of immigrant workers in the state—the total value of all goods and services produced in the economy—the figures are an even more stunning \$900 billion, and the output of undocumented immigrant

TABLE 2
The economic importance of immigrants

Gross state product, economic output, and labor income by documented and undocumented residents in California and Los Angeles County

	Employment (thousands)	Percent of total labor force by immigration status	GSP (1) (millions)	Output (2) (millions)	Labor income (3) (millions)	Other income (4)
California (5)						
Total workers	20,620	100%	\$1,749,836	\$3,202,735	\$976,240	\$642,553
Legal residents	3,938	19.1%	\$334,219	\$611,722	\$186,462	\$122,715
Undocumented immigrants	1,856	9.0%	\$157,485	\$288,246	\$87,862	\$57,836
Total foreign born	5,794	28.1%	\$491,704	\$899,968	\$274,324	\$180,551
Los Angeles (6)						
Total workers	5,674	100%	\$483,654	\$871,478	\$264,298	\$182,984
Legal residents	1,379	24.3%	\$117,528	\$211,769	\$64,224	\$44,465
Undocumented immigrants	692	12.2%	\$59,006	\$106,320	\$32,244	\$22,317
Total foreign born	2,071	36.5%	\$176,534	\$318,089	\$96,468	\$66,782

(1) Value added includes employee compensation, proprietary income, other property income, and indirect business tax. It represents the contribution of each industry to Gross Domestic Product (GDP).

(2) Output represents total value added by sector plus the total value of inventory and purchases by intermediate and final consumers.

(3) Labor income is the pre-tax earnings of workers, including all benefits.

(4) Other income includes earnings from rents, royalties, and dividends.

(5) California estimates constructed using Passel & Cohn 2009; Fortuny, Capps, & Passel 2007; and Myers, Pitkin, and Park 2005.

(6) Los Angeles County estimates constructed using Fortuny, Capps & Passel 2007.

workers was more than \$288 billion. As table 2 shows, even zeroing in just on Los Angeles County, the economic impacts from the immigrant workforce are significant. Undocumented workers alone accounted for \$59 billion of Los Angeles’s gross product and \$106 billion in total economic output.

Of course, these workers are not only producing important goods and services but also earning money that they spend in the state and contributing to economic growth and job creation that way. And the pre-tax earnings of immigrant workers in California were significant—more than \$274 billion for all immigrant workers in the state and nearly \$88 billion for undocumented workers. (see Table 2) Clearly, the sheer size of the impacts these populations make renders it imperative to consider the economic implications of proposed enforcement policies.

The output and spending of all immigrant workers generated 11.4 million jobs in California and 3.7 million jobs in Los Angeles. The output and spending just of undocumented workers generated 3.6 million in the state and 1.2 million jobs in the county. These output and spending calculations per job are based on the number of direct, indirect, and induced jobs related to the economic activities of immigrants

TABLE 3
Employment creation by immigrants

The direct, indirect, induced, and total employment effects of foreign-born workers in California and Los Angeles County
Jobs in thousands

	Employment	Percent of total labor force by immigration status	Indirect employment impact (1)	Induced employment impact (2)	Total employment impact
California (3)					
Total workers	20,620	100%	-	-	-
Legal residents	3,938	19.1%	1,786	2,069	7,793
Undocumented immigrants	1,856	9.0%	843	886	3,585
Total foreign born	5,794	28.1%	2,629	2,955	11,378
Los Angeles (4)					
Total workers	5,674	100%	-	-	-
Legal residents	1,379	24.3%	488	616	2,483
Undocumented immigrants	692	12.2%	264	293	1,249
Total foreign born	2,071	36.5%	752	909	3,732

(1) Indirect employment impact is the effect on employment in one industry caused by a change in employment in another industry, as a result of the interaction between industries. For instance, when employment is reduced in a given industry (direct), transactions between that industry and others decrease, and thus, more employees are laid off (indirect).

(2) Induced employment impact is the change in employment caused by a reduction in household spending, which happens when a drop in demand for goods and services causes a drop in an industry’s demand for employment.

(3) California estimates constructed using Passel & Cohn 2009; Fortuny, Capps, & Passel 2007; and Myers, Pitkin, and Park 2005.

(4) Los Angeles County estimates constructed using Fortuny, Capps & Passel 2007.

in California. Direct employment refers to direct labor force participation. Indirect employment refers to the effect of employment in industries connected to the industries in which these workers are employed. And induced employment refers to the effect of household spending on employment across the economy. (see Table 3)

Rounding out this snapshot of immigrants' present economic contributions to California is the fact that immigrant workers pay billions of dollars of taxes to the state treasury. Just like native-born Californians, immigrants pay personal taxes, such as income tax and property tax, business taxes (among them corporate profits taxes, dividends, and property taxes), and sales taxes. Our analysis estimates that immigrants on the whole paid \$95 billion in taxes in 2008 while undocumented immigrants paid approximately \$26 billion. (see Table 4)

The upshot: Immigrants living and working in California and Los Angeles County make significant contributions to the overall prosperity of the state. So what would happen if all the undocumented immigrants were driven from the state? To this question we now turn.

TABLE 4
The tax revenues immigrants pay

Estimated tax contributions of Californians and Los Angeleans by residency status

	Population (thousands)	Percent of total population by immigration status	Personal taxes (millions) (1)	Business taxes (millions) (2)	Sales taxes (millions)	Total taxes (millions)
California (3)						
Total	36,418	100%	\$84,729	\$150,012	\$114,781	\$349,522
U.S. citizens (4)	26,563	72.9%	\$61,800	\$109,415	\$83,719	\$254,934
Legal residents	7,156	19.6%	\$16,648	\$29,475	\$22,552	\$68,675
Undocumented immigrants	2,700	7.4%	\$6,282	\$11,122	\$8,510	\$25,914
Total foreign born	9,856	27.1%	\$22,930	\$40,597	\$31,062	\$94,589
Los Angeles (5)						
Total	9,832	100%	\$20,752	\$39,398	\$29,646	\$89,797
U.S. citizens (4)	6,340	64.5%	\$13,382	\$25,407	\$19,117	\$57,906
Legal residents	2,492	25.3%	\$5,259	\$9,985	\$7,513	\$22,757
Undocumented immigrants	1,000	10.2%	\$2,111	\$4,008	\$3,015	\$9,134
Total foreign born	3,492	35.5%	\$7,370	\$13,993	\$10,528	\$31,891

(1) Personal taxes include income tax, motor vehicle license fees, property tax and other non-tax fines and fees.

(2) Business taxes include corporate profits tax, dividends, motor vehicle license fees, property tax, severance tax, and other taxes.

(3) California estimates constructed using Passel & Cohn 2009; Fortuny, Capps, & Passel 2007; and Myers, Pitkin, and Park 2005.

(4) Los Angeles County estimates constructed using Fortuny, Capps & Passel 2007.

(5) U.S. citizens include children born overseas to U.S. citizen parents and children born in Puerto Rico and other U.S. territories.

The economic consequences of deporting California's undocumented immigrants

Removing all of the undocumented immigrants from California would have substantial, indeed devastating, consequences for everyone remaining in the state. Driving the undocumented immigrants out of California would lead to significant losses of jobs for both native-born and foreign-born workers. It would trigger a major contraction of the state economy as it struggles to grow its way past the Great Recession. And it would lead to substantial lost tax revenue for the state government, which is already reeling from the recession and high unemployment.¹³

Viewed through a strict economic lens, it is indisputable that the goal of mass deportation behind S.B. 1070 and related proposals contravenes the most basic public interest in a stable and growing economy. Indeed, the simplistic narrative that driving undocumented workers from the state will free up jobs for native-born Californians and legal immigrants does not hold up to scrutiny. In fact, pushing those workers out of the state would shrink the state's economy and trigger significant additional job losses in a state already suffering from high unemployment and stagnant job growth.¹⁴

Why? Because, as the prior section highlighted, these workers are not one-dimensional economic actors. They operate within a complex and dynamic system. When significant numbers of workers of any background (or immigration status) are removed from the labor force, there are reverberating effects throughout the economy. If mass deportation policies were enacted by the state or county, California and Los Angeles County could also anticipate huge costs beyond the direct economic havoc it would create. The costs to Arizona from lost conferences and conventions in the wake of S.B. 1070 and the litigation costs to a city like Farmers Branch, Texas, that adopted a localized version of S.B. 1070 highlight additional economic consequences of going down this path.¹⁵ (see box)

Here's an example of what could happen in California in just one industry—agriculture. If undocumented immigrants working in the fields of California—50 percent to 75 percent of the workforce by most estimates—are driven out of work and out

What happens when a city overreaches?

The tale of Farmers Branch, Texas

In November 2006, Farmers Branch, Texas, a small Dallas suburb of 26,000 people, passed an ordinance aimed at driving undocumented immigrants from the city by prohibiting them from renting apartments. The ordinance required apartment owners and managers to obtain proof of citizenship from every member of a family. Failure to comply could result in fines up to \$500 a day. The ordinance also made the city's official language English, and authorized local law enforcement to enforce federal immigration laws on a limited basis as part of a federal program.

After passage, four lawsuits were filed against the city, including one from local businesses that claimed that the English-only provision hurt businesses. The lawsuits were eventually combined, and in 2008 the ordinance was declared unconstitutional. The Farmers Branch city council has since passed two other versions, the last one requir-

ing renters to pay a \$5 fee and state their legal status on occupancy papers, but both have been declared unconstitutional.

As of December 2010, defending its city ordinances cost Farmers Branch's taxpayers \$3.7 million, and that cost is expected to rise to \$5 million. As a result of these high legal fees, the city was forced to cut the salaries and benefits of city employees by 1 percent, resulting in \$300,000 in savings that would be directed toward paying legal and court fees.

What's more, a study by economists from the University of North Texas concludes that the repeated attacks on immigrants by the Farmers Branch city has and will continue to have a "deleterious effect on the city's ability to attract, develop, and retain business."¹⁶

of the state by an aggressive state crackdown, it will trigger a cascade of unintended economic consequences. The farmers, of course, are hurt; if they can't harvest the crops, they can't pay their bills.

But the harm doesn't stop there. If farmers can't harvest their crops, the truckers who transport those crops to food processors, grocery stores, and restaurants lose work. And if those enterprises that rely on these crops to prepare meals or resell to consumers want to remain in business, they will have to pay more for new producers. The increased demand from a far smaller number of producers will elevate prices for all consumers. And more money spent on lettuce means less money spent elsewhere in the economy.

Over time, some of the farm jobs would be filled by currently unemployed workers and a measure of equilibrium would be restored. But we know that even the promise of substantial wages fails to draw significant numbers of U.S. workers to the fields; it often means moving to remote locations and it is back-breaking work.¹⁷ Even assuming more U.S. workers attempted to do these jobs than we have seen in the past, the immediate consequences of driving undocumented workers out of the industry would be significant—and many of the jobs will never be filled. It will take time to recruit and train the workers who are

TABLE 5

Mass deportation, mass income losses

The income effects of deporting undocumented workers in California

Labor income in millions of dollars

	Total labor income	Direct labor income impact (1)	Indirect labor income impact (2)	Induced labor income impact (3)	Total labor income impact	Percentage change
State of California (4)	\$976,240	-	-	-	-	0%
15 percent deportation		-\$12,907	-\$6,859	-\$6,061	-\$25,827	-2.6%
30 percent deportation		-\$26,697	-\$14,009	-\$12,481	-\$53,187	-5.4%
50 percent deportation		-\$44,495	-\$23,349	-\$20,802	-\$88,646	-9.1%
100 percent deportation		-\$87,862	-\$46,699	-\$41,604	-\$176,165	-18.0%
Los Angeles County (4)	\$264,298	-	-	-	-	0%
15 percent deportation		-\$5,107	-\$2,189	-\$2,069	-\$9,365	-3.5%
30 percent deportation		-\$10,215	-\$4,378	-\$4,137	-\$18,730	-7.1%
50 percent deportation		-\$17,024	-\$7,296	-\$6,895	-\$31,216	-11.8%
100 percent deportation		-\$32,244	-\$14,593	-\$13,791	-\$60,628	-22.9%

(1) Direct labor income impact is the change in pre-tax earnings of undocumented workers, including all benefits, as a result of their removal from the regional economy.

(2) Indirect labor income impact is the change in pre-tax earnings of workers as a result of changes in employment caused by the interaction of industries affected by undocumented worker deportation. For example, when employment is reduced in a given industry (direct), transactions between that industry and others decrease, and thus, more employees are laid off (indirect).

(3) Induced labor income impact is the change in pre-tax earnings of workers caused by the reduction in employment resulting from a reduction in household spending and a consequent drop in demand for goods and services.

(4) IMPLAN base data. This case represents the economy without any changes in employment or other values.

Note: Totals may not sum due to rounding error.

willing to try. In the interim, many crops will perish, farms will go in to foreclosure, and the effects of contraction will accelerate.

Of course, the consequences of mass deportation are not limited to those workers and industries directly connected to the agricultural industry. When undocumented immigrants working in the fields are plucked from the state, they stop paying rent, they stop buying clothes, groceries, and gas, and they stop paying taxes to the state. And as that spending declines, jobs in department stores, property management companies, and transportation companies are lost. As each of those industries suffers losses and shrinks, U.S. workers in the state are hurt, state revenues are lost, and the state economy contracts.

Our analysis shows that the contraction from rapidly removing undocumented immigrant workers would have severe ramifications for the state. If all undocumented workers were expelled, California would lose more than \$176 billion in labor income, defined as pre-tax salary and wage earnings. And as that income decreases, the earnings that would otherwise be spent in the state's economy, for example, on groceries, clothes, and housing, also are lost. (see Table 5)

TABLE 6

Devastating California's economy

The effects of deporting undocumented immigrant workers on state domestic product

GSP in millions of dollars

	Total GSP	Direct GSP impact (1)	Indirect GSP impact (2)	Induced GSP impact (3)	Total GSP impact	Percentage change
State of California	\$1,749,836	-	-	-	-	
15 percent deportation		-\$18,047	-\$10,230	-\$10,858	-\$39,134	-2.2%
30 percent deportation		-\$37,578	-\$20,888	-\$22,359	-\$80,825	-5.6%
50 percent deportation		-\$62,630	-\$34,815	-\$37,265	-\$134,709	-7.7%
100 percent deportation		-\$157,485	-\$69,630	-\$74,530	-\$301,645	-17.2%
Los Angeles County	\$483,654	-	-	-	-	
15 percent deportation		-\$7,254	-\$3,371	-\$3,734	-\$14,358	-2.9%
30 percent deportation		-\$14,508	-\$6,741	-\$7,467	-\$28,716	-5.9%
50 percent deportation		-\$24,180	-\$11,234	-\$12,445	-\$47,858	-9.9%
100 percent deportation		-\$59,006	-\$22,467	-\$24,890	-\$106,363	-21.9%

(1) Direct value added impact is the change in value added caused by the removal of undocumented immigrants from the regional economy.

(2) Indirect value added impact is the change in value added caused by the change in production in industries that interact with one another.

(3) Induced value added impact is the change in value added caused by the reduction in household spending.

Note: Totals may not sum due to rounding error.

This cycle of diminished earnings, consumption, and demand would shrink California's economy. Our analysis indicates that California's gross state product would be reduced by more than \$300 billion if the undocumented population was driven from the state. (see Table 6) That is a catastrophic figure totaling more than 17 percent of the state's economy.

Unsurprisingly, the economic contraction would trigger job losses that affect all of California's workers, native-born and foreign-born alike. And it is not just the industry in which the undocumented workers were employed that would be adversely affected. Transactions between that industry and other industries also would decrease, leading to additional layoffs. The decrease in household spending that would result from these layoffs keeps that downward cycle in motion and would trigger still further job losses.

We estimate that if all undocumented workers were removed from the state, California would lose 3.6 million jobs. That translates into a jaw-dropping decrease in total employment of over 17 percent. Table 7 shows the impact of mass deportation on direct, indirect, induced, and total employment in California.

TABLE 7
Collapsing California

The consequences of mass deportation on jobs in California

Jobs in thousands

	Total employment	Direct employment impact (1)	Indirect employment impact (2)	Induced employment impact (3)	Total employment impact	Total employment impact as percent of total employment
State of California	20,620	-	-	-	-	100%
15 percent deportation		-264	-126	-133	-523	-2.5%
30 percent deportation		-529	-253	-266	-1,047	-5.1%
50 percent deportation		-881	-421	-443	-1,745	-8.5%
100 percent deportation		-1,856	-843	-886	-3,585	-17.4%
Los Angeles County	5,674	-	-	-	-	100%
15 percent deportation		-104	-40	-44	-187	-3.3%
30 percent deportation		-208	-79	-88	-375	-6.6%
50 percent deportation		-346	-132	-146	-624	-11.0%
100 percent deportation		-692	-264	-293	-1,248	-21.9%

(1) Direct employment impact is the change in employment caused by the removal of undocumented immigrants from the regional economy.

(2) Indirect employment impact is the effect on employment in one industry caused by a change in employment in another industry, as a result of the interaction between industries. For instance, when employment is reduced in a given industry (direct), transactions between that industry and others decrease, and thus, more employees are laid off (indirect).

(3) Induced employment impact is the change in employment caused by a reduction in household spending, which happens when a drop in demand for goods and services causes a drop in an industry's demand for employment.

Note: Totals may not sum due to rounding error.

Our presentation of the consequences of mass deportation in California's agricultural industry is obviously germane here, too. Some jobs done by undocumented immigrants would be filled by currently unemployed workers, but some positions would take time to fill and many would never be filled. Small businesses in particular, which often operate close to the margin, would be hurt or forced to close down. The immediate consequences would be undeniably significant and the economy, even after recalibration, would be diminished.

No doubt businesses would make adjustments to their business organization—the amount of labor, capital, and technology used—as a result of mass deportation. Nonetheless, removing these people from the economy creates a significant hole in gross state product, even after considering these adjustments. In fact, using results from a national computational general equilibrium, or CGE, model that allows us to account for such adjustments, our earlier report on Arizona determined that removal of the nation's entire undocumented population would trigger a \$2.6 trillion loss in cumulative gross domestic product over 10 years.¹⁸

TABLE 8
Mass deportation means lost tax revenues

The effects of deportation on state tax revenues

Millions of dollars

	Personal taxes (1)	Business taxes (2)	Sales taxes	Total taxes	Total tax change	Percent change
State of California (3)	\$84,729	\$150,012	\$114,781	\$349,522	\$0	0%
15 percent deportation	\$83,647	\$148,122	\$113,305	\$345,074	-\$4,448	-1.3%
30 percent deportation	\$82,565	\$146,232	\$111,829	\$340,626	-\$8,896	-2.5%
50 percent deportation	\$81,122	\$143,711	\$109,861	\$334,694	-\$14,828	-4.2%
100 percent deportation	\$77,514	\$137,409	\$104,941	\$319,864	-\$29,658	-8.5%
Los Angeles County (3)	\$20,752	\$39,398	\$29,646	\$89,796	\$0	0%
15 percent deportation	\$20,392	\$38,724	\$29,123	\$88,239	-\$1,557	-1.7%
30 percent deportation	\$20,033	\$38,049	\$28,601	\$86,683	-\$3,113	-3.5%
50 percent deportation	\$19,554	\$37,149	\$27,904	\$84,607	-\$5,189	-5.8%
100 percent deportation	\$18,355	\$34,900	\$26,163	\$79,418	-\$10,378	-11.6%

(1) Personal taxes include income tax, motor vehicle license fees, property tax and other non-tax fines and fees.

(2) Business taxes include corporate profits tax, dividends, motor vehicle license fees, property tax, severance tax and other taxes.

(3) IMPLAN base data. This case represents the economy without deportation changes.

Operating for an extended time with a depleted workforce may mean the difference between keeping the doors to a business open or shutting them for good. And that goes for state and county government operations, too. Even in the best of economic times, no state or county government can afford to pursue policies that lead to economic contraction and lost jobs. Amid the currently tepid economic recovery, a policy that would force the state to forego more than \$29 billion in tax revenues is more than self-defeating—it is leadership malpractice. (see Table 8)

This section of our report highlights the drastic economic and fiscal consequences awaiting California and Los Angeles County if it proceeds with its efforts to drive out all of its undocumented immigrants. The next section details why doing just the opposite—requiring undocumented immigrants to register and work legally in California—would have precisely the opposite effect.

The benefits of legalizing undocumented immigrants to work in California

Undocumented workers in California and elsewhere around the country operate on the margins of the economy and are unable to realize their full earning potential. Many of them are nonetheless deeply embedded in communities, often in nuclear families with legal residents and U.S. citizens. In fact, 62 percent have been living in the United States for more than eleven years.¹⁹ Despite unprecedented federal enforcement efforts and historic numbers of deportations, the undocumented population has remained largely stable.²⁰ Even if it were possible to expel every undocumented immigrant from California, the analysis above demonstrates that such a goal would be economically self-defeating.

By contrast, our analysis shows that bringing all undocumented workers legally into the California workforce would be unquestionably beneficial to the state economy and all its residents. A state program that required undocumented immigrants to register, undergo background checks, pay taxes, and get right with the law would level the playing field for all workers and all employers.²¹ States acting on their own cannot, constitutionally speaking, enact these kinds of policies, although recently Utah passed legislation seeking federal permission to do just that—provide work permits to the state’s undocumented immigrants.

Ultimately, only the federal government can resolve the status of the undocumented. But for the purposes of our analysis we examine in this section of the paper what would happen if California’s workforce was legalized.

The result: reform would create jobs and raise wages for all workers.²² And it would increase tax revenues for California, which is projected to face a budget shortfall of \$25.4 billion in 2011-2012.²³ Rather than pursue a strategy that cuts against the state’s economic and fiscal interests, the California legislature should pressure Congress to enact pro-growth reforms like requiring the undocumented population and exploitive employers to get right with the law.

TABLE 9
Raising California

The effects of legalizing undocumented workers on income and employment in California

Jobs in thousands

	Labor income increase (millions)	Direct employment gain (1)	Indirect employment gain (2)	Induced employment gain (3)	Total employment gain	Total employment gain as percent of total employment
State of California (4)	\$976,240	-	-	-	-	20,620
Legalization	\$26,930	349	128	155	633	3.1%
Los Angeles County (4)	264,298	-	-	-	-	5,674
Legalization	\$10,305	120	41	50	211	3.7%

(1) Direct employment gain is the increase in employment caused by the legalization of all undocumented immigrants in the regional economy.

(2) Indirect employment gain is the increase in employment in one industry caused by a change in employment in another industry, as a result of the interaction between industries. For instance, when employment is increased in a given industry (direct), transactions between that industry and others increase, and thus, more jobs are created (indirect).

(3) Induced employment gain is the increase in employment caused by an increase in household spending. As more jobs are created, demand for goods and services increases and increases an industry's demand for employment.

(4) IMPLAN base data. This case represents the economy without any changes in employment or other values.

Note: Totals may not sum due to rounding error.

Undocumented immigrant workers earn about 18 percent less in wages than legal workers.²⁴ A program that required all undocumented immigrants to earn legal status would increase labor income and employment in the state by closing the wage gap between documented and undocumented workers. We estimate that legalizing the undocumented workers in California would increase labor income in the state by nearly \$27 billion. (see Table 9)

As the legalized worker and her family spend the increased earnings on new clothes, a down payment on a car, or a new apartment, the effect reverberates throughout the economy. Clothing stores, car dealers, and rental agencies boost their sales and hire more staffs. In other words, the increase in economic output and consumer spending would precipitate a spike in demand for goods and services. Instead of the downward spiral produced by extracting these workers from the state's economy, requiring them to earn legal status would precipitate a virtuous cycle of growth in jobs and revenue. Our modeling shows that legalizing these workers would add 633,000 jobs to the hard-hit California economy (see Table 9) and increase the state's tax revenues by \$5.3 billion. (see Table 10)

The choice, then, between legalizing undocumented immigrants to work in California or instead to deport them is really no choice at all from an economic standpoint. The stated goal of enforcement-only measures like S.B. 1070 is to drive the undocumented population out of the state. The proponents of this type of legislation claim to be acting in the best interests of native-born Americans, but that's simply not true.

TABLE 10

Boosting tax revenues by the millions

The effects of legalizing undocumented workers on state tax revenue in California

	Personal taxes (1)	Business taxes (2)	Sales taxes	Total taxes	Total tax change	Percent change
State of California (4)	\$84,729	\$150,012	\$114,781	\$349,522	\$0	0%
Legalization	\$1,264	\$2,261	\$1,793	\$5,318	\$5,318	1.5%
Los Angeles County (4)	\$20,752	\$39,398	\$29,646	\$89,796	\$0	0%
Legalization	\$411	\$804	\$638	\$1,853	\$1,853	2.1%

(1) Personal taxes include income tax, motor vehicle license fees, property tax, and other non-tax fines and fees.

(2) Business taxes include corporate profits tax, dividends, motor vehicle license fees, property tax, severance tax, and other taxes.

(3) IMPLAN base data. This case represents the economy without deportation changes.

The economic analysis in this report demonstrates that if that goal were realized, then the exact opposite result would occur. Native-born Americans in California would suffer devastating economic losses. If California passed and successfully implemented an Arizona style law, it would:

- Trigger a loss of 3.6 million jobs
- Decrease total employment in the state by more than 17 percent
- Reduce the state's tax revenues by 8.5 percent.

The impact on driving undocumented workers from Los Angeles County, with its large immigrant population, would be profound as well. It would eliminate 1.3 million jobs for immigrant and native-born workers alike, and decrease total employment by a whopping 21.9 percent.

A sober analysis of the economic implications of S.B. 1070-style laws should lead state legislators of every political stripe to reject the approach. There is a practical, common-sense alternative that carries unequivocally positive economic impacts: a federal policy that requires undocumented immigrants to register, pay taxes, and earn legal status. The foregoing analysis shows that legalizing the undocumented population in California would add 633,000 jobs and increase tax revenues by \$5.3 billion.

If state legislators really intend to promote the best interests of their constituents, they should reject these counterproductive deportation initiatives and focus instead on holding their federal counterparts responsible for reforming our immigration laws.

Appendix: Methodology

This study uses the term “undocumented” immigrants to describe those individuals who are not U.S. citizens or legal residents. Estimates of the number of people in each of these immigrant groups come largely from studies performed by the Pew Hispanic Center using the so-called “residual methodology” developed by Jeffrey Passel, a senior demographer at Pew and the leading national expert on the demographics of the undocumented population.

This methodology estimates “undocumented” residents (or workers) by subtracting the number of estimated legal residents from total foreign-born population based on data from the Department of Commerce’s Census Bureau Current Population Survey. The difference between total foreign-born residents and those residing legally are known as “unlawful,” “unauthorized,” or “illegal” immigrants. The methodology controls for temporary workers, international students, and other foreign-born residents who may affect the accuracy of the estimates. It also controls for omitted surveys and other possible reporting errors.

About IMPLAN

This study uses so-called IMPLAN input-output models of the California and Los Angeles County economies, which allows researchers to calculate the impacts resulting from changes in policy and economic activity. The study estimates the impacts on economic output and employment in each industry, and the resulting impact on tax contributions, given a range of assumed changes to migration-related policies. The model allows identification of direct economic effects in affected industries, indirect effects in related industries, and induced affects that cascade through the economy.

The IMPLAN input-modeling approach—IMPLAN stands for “IMPact analysis for PLANning”—is most useful and appropriate in analyzing the short-term shock to a state economy that would be immediately felt from a significant policy

TABLE A1

General sources and assumptions used in this report

Source	Basic assumption	Impacts
U.S. Department of Labor, 1996	Undocumented workers earn 18 percent less than authorized workers	Legalization would benefit not only undocumented workers but also would raise legal worker wages
Pew Hispanic Center Research for AZ, CA, LA	Foreign-born people represent an important portion of the labor force, ranging from 30-40 percent.	
Myers, et al. 2005	From 2005 to 2030 population growth will be 6.1 million. Nearly 40 percent of that increase will be in the foreign-born population.	Foreign-born workers as a proportion of the total worker population will grow approximately 1 percent per year from 2010 to 2020.

change, either a mass deportation or a mass legalization. The IMPLAN modeling approach is thus well suited to analyze the immediate and regionally specific impacts resulting from abrupt policy shifts.

Other modeling approaches, such as computable general equilibrium models, assume full adjustment in national product and factor markets over long periods of time, and thus lessen the shock that abrupt policy changes such as mass deportation can inflict on economies. Nonetheless, as our prior report conclusively demonstrated, even after such adjustments are accounted for, removal of all of these workers from the nation's economy would create a massive hole in GDP. Our report concluded that over 10 years, it would lead to a cumulative loss of \$2.6 trillion in GDP.²⁵

IMPLAN data

The data set used is a 2008 data file containing 442 industries. For this study, both the 2006 and 2008 IMPLAN data files were aggregated down to 34 industries. A bridge was created between the 509 and 442 industries in the IMPLAN files and the U.S. Census Bureau's industry tables. It is important to note that in this study we are using constant 2006 dollar figures provided by the IMPLAN database. (see Table A1)

Undocumented worker estimates

The number of undocumented workers was estimated using Pew Center estimates for California and Los Angeles County. We then applied the number of undocu-

mented workers to each industry using foreign-born worker percentage estimates for the economies of each region (see next section). For instance, if there were an estimated 100 undocumented workers in a given region and estimates for foreign-born workers in the construction industry in that region were 23 percent, then 23 undocumented workers were added to the construction industry and the rest were distributed using the same method.

Note: Because undocumented workers tend to be attracted by specific industries (construction, leisure, and hospitality), it is extremely important that they are distributed in the corresponding industries. Failure to do so could result in perverse results once the IMPLAN model is run.

Undocumented workers by industry

In “The Characteristics of Unauthorized Immigrants in California, Los Angeles County and the United States,” the authors provide estimates of the percentage of undocumented workers in 13 aggregated industries.²⁶ Part of the original Table 18 in their book is displayed below in Table A2.

TABLE A2
Census Bureau industry aggregations and share of undocumented workers by industry in California and Los Angeles County

Industry	California	Los Angeles
Agriculture, forestry, fishing/hunting	22%	18%
Mining	0%	0%
Construction	15%	27%
Manufacturing	14%	22%
Wholesale and retail trade	8%	12%
Transportation and utilities	8%	13%
Information	8%	4%
Financial activities	3%	5%
Professional and business services	10%	11%
Educational and health services	3%	5%
Leisure and hospitality	17%	24%
Other services	12%	23%
Public administration	0%	0%

Source: Fortuny, Capps and Passel (tabulations of CPS 2003 and 2004 files).

This study used the above percentages to estimate the number of undocumented workers in each industry and subsequently run the IMPLAN model to estimate economic impacts.

Undocumented worker value added contribution by industry

In order to estimate the undocumented worker contributions to gross state product in each industry, we applied the following calculation:

$$TVA_{Uj} = (TVA / TE) * Uj$$

Where:

U—Undocumented workers in industry j

J—Any given industry

TVA—Total value added

TE—Total employment

Deportation scenarios

In this study, we calculate the impacts resulting from the deportation of 15 percent, 30 percent, 50 percent, and 100 percent of undocumented workers. These calculations were performed by estimating the number of undocumented workers by industry and running the IMPLAN model to calculate the exact impact of these workers (all else equal).

The model provides a good estimate of how many jobs could be created or lost given the output contribution in each industry, as well as other changes in economic activity important to this study. The main economic impacts analyzed are: employment impacts, output impacts, value-added impacts, labor-income impacts, and tax impacts.

Wage differences between legal and undocumented workers

This study assumes undocumented workers' wages are 18 percent lower than those of legal workers. Based on this assumption, we estimated legal and undocumented workers' wages using IMPLAN base labor income. Next, we "legalized" those workers, increasing their wages to the prevailing market wage.

When all workers across the state economy earn the same wages, the labor wage bill increases, as does output based on the increases in wage-based demand. Based on previous experiences of legalization (such as the impact of the Immigration Reform and Control Act of 1986), we assume labor productivity grows in commensurate proportion to wage increases due to legalization and a constant wage elasticity of labor demand, thus resulting in a stable employment rate.²⁷ Using the IMPLAN model, we considered output an indicator for economic activity, measuring output before and after the rise in wages to understand the impacts.

Fiscal analysis

Tax impacts for this study are calculated in two parts. The first part is calculated by extracting total population tax contributions for the base year (IMPLAN base year data). The second part is calculated by extracting the different percentages of undocumented workers from the economy and then comparing the results to the original IMPLAN data. The difference in tax revenue is the undocumented worker contribution.

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