

**THE
IMPACT OF IMMIGRATION
ON THE CALIFORNIA ECONOMY**



A Report of the
California Regional Economies Project
September 2005

Prepared by the
Center for Continuing Study of the California Economy

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PREFACE

This report was prepared by the Center for Continuing Study of the California Economy (CCSCE) under contract to the California Labor and Workforce Development Agency. This report was prepared as a part of the California Regional Economies Project, a joint effort of the California Workforce Investment Board and the California Economic Strategy Panel.

The California Regional Economies Project provides California's economic and workforce development system with information about changing regional economies and labor markets.

The Center for Continuing Study of the California Economy provides an independent assessment of the growth of California and its subareas. CCSCE specializes in analysis and long-term projections of the economic and demographic variables in California at the state, regional, and county levels.

EXECUTIVE SUMMARY

Immigration policy in the United States is a federal responsibility. Congress sets immigration eligibility rules and limits, and the federal government has the responsibility for border security.

Even though immigration policy is a federal responsibility, the effects of immigration are concentrated in states, such as California, where most immigrants live. This disparity between federal responsibility and local impact helps make immigration one of the most hotly debated public policy issues.

This report examines the impact of immigration on the California economy. Existing research is summarized, and references are provided so that interested readers can find additional information and a variety of viewpoints on the interpretation of existing research findings. This report makes no policy recommendations.

INTRODUCTION

The Introduction provided in Chapter 1 of this report defines terminology, offers resources for further study and analysis, and discusses the following topics:

Terminology —The terms *foreign-born* and *immigrant* refer to residents who came to the United States from other countries. The term *unauthorized immigrant* refers to residents who came to the United States without legal authorization. The term *second generation* refers to the U.S.-born children of immigrants, and the term *third generation* (or *3^d+ generation*) refers to everyone born to parents who themselves were born in the United States.

Economic and fiscal effects of immigration — This report discusses the *economic effects* of immigration (for example, the impact on jobs, wages, unemployment and prices). It also discusses the *fiscal effects* of immigration (for example, the impact on government budgets at the federal, state and local level).

Where possible, data for California is used. In some cases, the only available data is for the United States.

Single-period vs. multi-period analysis — Many studies emphasize that analyzing the effects of immigration on the economy and on government budgets requires taking a long-term view. Existing studies, however, focus on the effects in a single recent time period. They do not take into account what will happen as current immigrants gain experience in the workforce and as their children are educated and enter the workforce.

The ability of immigrants to acquire experience, and the ability of their children to acquire a good education, including college education, will play a large role in determining the long-term economic and fiscal impact of immigration in the state and the nation.

CALIFORNIA IMMIGRATION TRENDS

Chapter 2 of this report discusses California immigration trends, including the following:

Number of Immigrants — In 2004 California had an estimated 36.6 million residents. Of these, 9.5 million were foreign-born. Out of the 9.5 million foreign-born, 2.4 million were unauthorized immigrants.

Concentration of Immigrants — California's share of the U.S. foreign-born population is falling as immigrants move into other states. In 1990 California had 33% of all foreign-born U.S. residents and 45% of all unauthorized immigrants. By 2004, however, California's shares had fallen to 28% and 24%, respectively.

Origin of Immigrants — Nearly 40% of California's legal immigrants come from Mexico and Asia. A majority (81%) of the unauthorized immigrants come from Mexico and other Latin American countries.

Age of Immigrants — Unauthorized immigrants are concentrated (72%) in the 18-39 age group, with 17% below 18 and only 11% above the age of 40.

Time of Entry into U.S. — The majority (55%) of legal immigrants came to the U.S. before 1990. However, 86% of today's unauthorized immigrants have come since 1990.

Educational Attainment of Immigrants — The educational attainment of immigrants and, particularly, unauthorized immigrants is below the average educational attainment of native-born residents.

ECONOMIC IMPACT OF IMMIGRATION

Chapter 3 of this report discusses basic labor market principles and empirical evidence about the economic impact of immigration. It shows the occupations in which immigrants are most concentrated and discusses California's share of low-wage jobs.

Basic labor market principles — The economic impact of immigration includes its **effects on the overall economy**. These effects include such things as job growth, unemployment and poverty rates, and wage and price levels. The economic impact also includes its **effects on individuals**, including possible changes in job and income opportunities.

The impact of immigration on the economy depends significantly on how the skills of immigrants fit the needs of the U.S. economy. From the public's point of view, the question centers on whether immigrants "take jobs from existing residents" or whether they "take jobs that nobody else is available to fill."

Despite substantial immigration and two major recessions during the past 15 years, major economic indicators for California were better in 2004 compared to the nation than they were in 1990.

Broad economic trends — The following economic trends have been in effect in California since 1990:

- **Unemployment rate** — California's current unemployment rate is lower than it was in 1990. After having been nearly 3% higher than the nation's unemployment rate in the early 1990s, it has now moved close to the national average.
- **Poverty rate** — California's poverty rate is now close to the national average, after having been 3% higher than the nation's rate in the early 1990s. The poverty rate declines as the immigrants' length of residence in the U.S. increases.
- **Average wage levels** — California average wages have risen faster than the national average since 1990. They were 13% above the national average in 2004.
- **Job growth** — California's job growth has outpaced the national average since 1994. Although California has experienced two downturns since 1990 (the aerospace-led downturn in the early 1990s and the Internet/tech-led downturn after 2000), immigration was not a factor in either downturn.

Immigrant occupations — Foreign-born workers are more concentrated in service, construction and production occupations than are native-born workers. Foreign-born workers are underrepresented in management, professional and sales occupations.

The exception is foreign-born workers from Asia, who are more concentrated in management and professional occupations than are native-born workers. By contrast, immigrants from Latin America and unauthorized immigrants as a group are highly concentrated in service, construction and production-related occupations.

The occupational profile of second-generation residents is similar to that of native-born residents.

Only 4.3% of U.S. workers are unauthorized immigrants. However, they account for 19% of farming jobs, 17% of cleaning jobs, 12% of construction jobs and 11% of food preparation occupations. Contrary to popular conception, only 3% of unauthorized immigrants in the United States work in farming. (In California this percentage may be somewhat higher.)

California's share of low-wage jobs — In 2004 the state accounted for 11.5% of all U.S. jobs. It also had 11.4% of food service jobs, 11.2% of hotel jobs, 11.9% of building service jobs and 12.3% of U.S. construction jobs. **California does not have a significantly above-average share of jobs in industries where low-wage immigrants are concentrated.**

Impact on existing workforce — Economic theory suggests that low-skilled immigrants may affect the job and income opportunities of other low-skilled workers. A number of empirical studies have attempted to measure these effects.

National Academy of Sciences studies on immigration and the *2005 Economic Report of the President* conclude that existing studies have found “only a small adverse effect” or “little effect” on the wages of native-born residents.

These reports also conclude that immigration has net positive effects for the overall economy, although there may be individuals who suffer negative consequences.

FISCAL IMPACT OF IMMIGRATION

One of the most hotly debated aspects of U.S. immigration policy is the fiscal impact of immigration—especially, unauthorized immigration. The topic is discussed in Chapter 4 of this report.

Conclusions of previous analyses — Studies conducted to examine the fiscal impact of immigration (that is, its effect on public service costs and taxes paid) have generally come to the following conclusions:

- The fiscal impact of immigrants in recent years was negative. Public service costs exceeded taxes paid.
- Fiscal effects were most negative for state and local governments and for jurisdictions with a high concentration of recent immigrants. The current fiscal balance for unauthorized immigrants is more negative than for legal immigrants.
- The negative fiscal effects were caused by the fact that immigrants are more likely to be poor and to have more children than native-born residents. The fiscal impact of low-income native-born residents with above-average numbers of children is also negative.

Inadequacy of Single-Period Analyses — There is broad criticism of the methodology used in existing fiscal impact studies. Existing studies focus on single recent-year periods. Three important problems with the single-period analyses are that they:

- **Fail to take into account long-term fiscal impact** as immigrants move through the workforce and retire.
- **Are based only on current age distribution** of immigrants (that is, the current distribution of children, workers and retirees).
- **Treat education as a cost item only.** They do not take into account the investment aspect of education spending.

Education as investment — Education is an investment. Higher earnings are strongly associated with increasing levels of educational attainment. The fiscal impact of educating the children of immigrants, which can be negative in the near-term, could be positive when viewed over their full lifetime.

Multi-period analysis — Today's immigrants are relatively young and have an above-average number of children. In 20 years, today's immigrants will be more experienced and most will still be in the workforce. Their children will be out of school and in the workforce. The net fiscal effect will be different than it is today. The total fiscal impact of today's immigrants and their children includes current fiscal effects and future fiscal effects—which are not known at this time.

Fiscal balance varies by jurisdiction — The majority of tax revenues paid by immigrants go to the federal government, but the largest share of public service costs related to immigration are at the state and local level. The fiscal balance can be positive at the federal level, but negative at the state and local government levels. The fiscal effects of immigrants are most negative in communities that have an above-average share of poor immigrants.

Eligibility of immigrants for public services — Immigrants, including unauthorized immigrants, are eligible for most public services. However, many health and social service programs are not available to unauthorized immigrants. There are some eligibility limitations for legal immigrants also. The major part of public spending related to unauthorized immigrants is for education, emergency medical services and prison costs.

Criticism of existing fiscal impact studies — There is a broad consensus that existing fiscal impact studies present an unreliable and incomplete picture of the total fiscal effects of immigration. However, there is also broad agreement that the near-term fiscal impact of immigrants (and particularly, of unauthorized immigrants) is negative for state and local jurisdictions that have a high concentration of immigrants.

IMMIGRATION AND CALIFORNIA' S FUTURE ECONOMY

Chapter 5 looks at the changing characteristics of immigrants and their children over the next 25 years—and what these changes mean for the California economy.

Workforce growth — Almost all of California's workforce growth between 2005 and 2030 is likely to come from immigrants and their children.

Length of residence — Length of residence in the United States of the state's immigrant population is expected to increase substantially. The share of immigrants who have been in the United States for less than 10 years is projected to decline from 9.5% of California's population in 2000 to 7% in 2030. On the other hand, the share of immigrants who have been in the country for 10 years or longer is projected to grow from 16.5% in 2000 to 23.5% in 2030.

Education and income levels — On average, educational and income levels for immigrants rise with length of stay in the United States. At the same time, unemployment and poverty rates decline.

English language proficiency — English language proficiency and high school graduation rates rise in the second generation. The Pew Hispanic Center reports that only 7% of second-generation Latinos use Spanish as their primary language. In the third generation of Latinos, 78% use English as their primary language, and the other 22% are bilingual.

Job skills — **Skill level of current immigrants and their children will be determined by the quality of their K-12 educational experience and by their ability to get a college education.** The college participation rates of immigrants from Latin America and their children are currently below the participation rates for other groups in California.

California's future working-age population — If immigrants and their children remain in California, the state's population will be younger than the national average, and California will have an above-average share of residents between the ages of 18 and 64. If immigrants and their children experience rising levels of educational attainment, their presence can be a competitive advantage for California.

Consequences of failure to increase education — If future immigration levels remain near current levels, and if immigrants and their children fail to achieve rising levels of educational attainment, it is likely that many immigrants will leave California to live elsewhere. Immigrants are unlikely to remain in California if job opportunities are better elsewhere and the California economy is unlikely to need an above-average share of low-skill jobs.

The consequences of failing to increase educational attainment for all residents—including immigrants and their children—would be likely to spread throughout the United States. The nation’s ability to compete in the world economy would be affected.

The consequences for the California economy will depend on how easy or hard it is to attract skilled workers from other states or abroad.

Chapter 1

INTRODUCTION

The subject of immigration is prominent in policy discussions for residents and legislators in California and the nation. U.S. and California residents often have strong feelings about immigrants and immigration, as evidenced in public opinion polls and radio talk shows. The subject of immigrants who come to the United States without legal authorization is a topic—like abortion—that evokes particularly strong feelings among residents.

During the past 15 years, many studies have attempted to measure the economic and fiscal effects of immigration. Although not the only important factors to consider when making immigration policy decisions, these two factors do address the question of how immigration most affects existing residents.

Defining and measuring the economic and fiscal effects of immigration is a complex matter. This report summarizes the issues and the findings reported in existing research. The report makes no policy recommendations.

Primary Focus of Report

This report summarizes issues and findings about both legal immigration and immigration that occurs without legal authorization. However, the primary focus is placed on unauthorized immigration. Much of the existing analytical and empirical research focuses on how immigration affects the nation. Wherever possible, this report focuses on the effects of immigration on the California economy and on California residents.

Definition of Terms

Foreign Born

The foreign-born population includes all residents who were born in a foreign country. Every foreign-born resident came to the United States as an immigrant from another country. This report uses the term *foreign born* and *immigrant* interchangeably.

Legal immigrant

There are several ways that foreign-born individuals can obtain permanent legal status as United States residents. Permanent legal status is possible through family reunification rules, through specific employment-based quotas and for refugees.

Permanent legal residents can later become U.S. citizens if they meet residency and other eligibility criteria. Thus the term *legal immigrant* includes both foreign-born U.S. citizens and foreign-born residents who are not U.S. citizens.

Unauthorized Immigrant

Various organizations use different terms to refer to people who reside in the United States without legal authorization. The Census Bureau and the Immigration and Naturalization Service (INS) generally use the term *unauthorized immigrant*. This is the term used throughout this report.

Other organizations use different terms. The Pew Hispanic Center now uses the term *unauthorized migrant*. The Urban Institute and the National Council of La Raza use the term *undocumented immigrant*. The U.S. General Accounting Office uses the terms *illegal immigrant* and *illegal alien*. The Center for Immigration Studies and the Federation for American Immigration Reform use the term *illegal immigrant*.

Unauthorized immigrants enter the country in one of two principal ways:

- By crossing the border without valid immigration documents; or
- By entering with a valid visa and then remaining in the country after their visas expire.

Temporary Residents

People who come to the United States for a temporary period—students and visitors, for example—are not counted as immigrants. This is also true for some categories of workers who come under temporary work programs such as those covered by H-1B visas.

Second & Third Generation

The term *second generation* refers to the children of immigrants. The term *third generation* or *3rd + generation* refers to residents born to parents who themselves were both born in the United States.

Economic vs. Fiscal Impact of Immigration

The economic impact of immigration includes its effects on the overall economy and on specific individuals. Economic impact on the overall economy includes changes in job levels, the rate of economic growth, wages, prices, unemployment and income and poverty levels. Economic impact on individuals relates to whether their specific job and income opportunities are positively or negatively affected by immigration.

One central economic policy question about immigration is whether immigration has a positive or negative effect on the economic prospects of existing residents.

The fiscal impact of immigration includes changes in tax and spending levels in federal, state and local government budgets. The central fiscal question about immigration is whether immigration has a positive or negative effect on the taxes paid and services received by existing residents.

Resources for Further Study and Analysis

The data sources used in this report are listed in Appendix A.

A comprehensive review of the theoretical framework for analyzing the impact of immigration is presented in two volumes prepared for Congress by the National Academy of Sciences. These publications, *The Immigration Debate: Studies on the Economic, Demographic and Fiscal Effects of Immigration* (1998) and *The New Americans: Economic, Demographic and Fiscal Effects of Immigration* (1997), can be reviewed at www.nap.edu.

The Pew Hispanic Center (www.pewhispanic.org) has published several recent studies on the characteristics and impact of unauthorized immigrants. Most of the data on unauthorized immigrants in this report is derived from the Pew Hispanic Center reports.

Analyses of the different characteristics of immigrants by generation were published by the Pew Hispanic Center. Extensive generational analyses related to California were published by the USC Demographic Futures Project and can be seen at www.usc.edu/schools/sppd/futures. *Second Generation Immigrants in California*, a report published by the Public Policy Institute of California, is available at www.ppic.org.

The Urban Institute and George Borjas of Harvard University published a number of analyses of the fiscal and economic impact of immigration. RAND published a number of studies related to California in the 1990s.

Major organizations involved in immigration research and advocacy include the Federation for American Immigration Reform (www.fairus.org), the National Immigration Law Center (www.nilc.org), the Center for Immigration Studies (www.cis.org), the National Council of La Raza (www.nclr.org), and the Migration Policy Institute (www.migrationpolicy.org).

Core Issues for Analysis

Impact on Overall Economy vs. Impact on Individuals

The economic effects of immigration can differ for different individuals. In general, immigration can raise incomes for some existing residents and lower incomes for other residents.

Economic theory indicates that existing residents whose skills are similar to those of new immigrants are most at risk from immigration. In particular, domestic workers with low levels of education and skills are most at risk of economic loss from the arrival of low-skilled immigrants.

On the other hand, immigrants who enter with skills that are needed in the U.S. economy or with capital to form new companies can raise incomes for existing workers. Evidence suggests that the immigration of entrepreneurs into Silicon Valley has had positive economic effects for existing residents.

As a result, it is possible for immigrants to create positive economic effects overall, but also to leave specific individuals with lower incomes than they otherwise would have had.

Single-Period vs. Multi-Period Analysis

Most studies on the fiscal and economic impact of immigration focus on a single period in time. They are static analyses and do not take into account longer-term effects. Most analyses of fiscal impact focus on a single year; for example, analyzing the fiscal impact of immigration in California in 1992.

The National Academy of Sciences reports referenced earlier stress the importance at looking at the effects over longer periods of time and including at least three generations. One of the primary issues is that education is treated as a cost item in single-period fiscal analyses. That is, these analyses look only at the costs of educating the children of immigrants.

However, education has an important investment component. It raises the skills and earning potential of students. Fiscal impact analyses are incomplete if they include only the costs of educating children, and not the higher earnings and tax-paying capacity of those children in future years.

Fiscal impact analyses are also incomplete if only the impact of working-age immigrants is counted and not the fiscal impact after they retire. Because many aspects of the future fiscal impact of immigration cannot be known at this time, any conclusions should be considered tentative, based on existing single-period analyses.

The longer-term fiscal impact might be either positive or negative. Much depends on the age structure of immigrants and, especially, on how education of immigrants and their children affects their economic prospects and the prospects of the overall economy.

Fiscal Effects Vary by Jurisdiction

The effect that immigration has on government taxes and spending varies significantly by jurisdiction. Most education expenses are funded locally and by states. Social services are funded by states and the federal government. Local public services like police and libraries are funded locally.

Payroll taxes for Social Security and Medicare make up the largest share of taxes paid by low-income residents, whether immigrants or not. Because payroll taxes go the federal government, it is entirely possible that immigrants could create a positive fiscal impact at the federal level and a negative impact at the state and local level.

Moreover, communities with a high concentration of immigrants that have low incomes and an above-average number of children will almost certainly experience a net fiscal loss in the years immediately after these immigrants arrive in the United States.

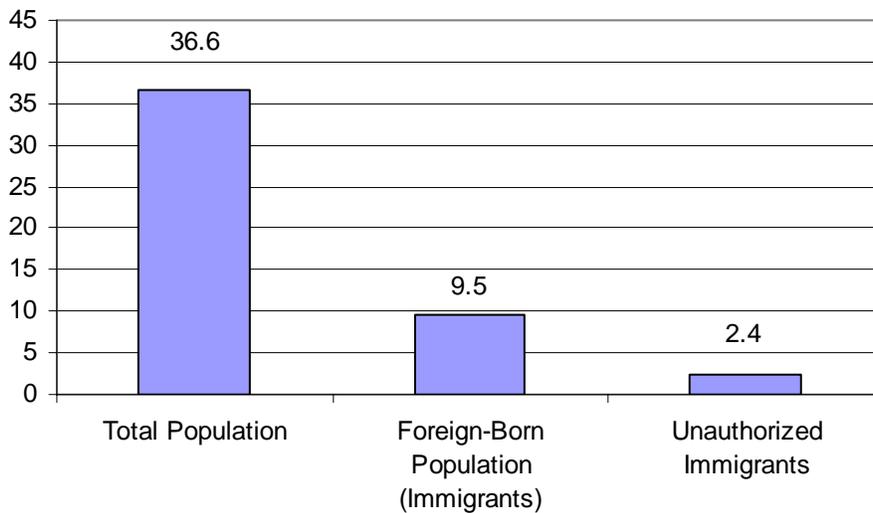
Chapter 2

CALIFORNIA IMMIGRATION TRENDS

Number of Immigrants

California had 36.6 million residents in 2004, according to the California Department of Finance (DOF). The number of foreign-born residents was 9.5 million. An estimated 2.4 million of the foreign-born were unauthorized immigrants, according to an analysis published by the Pew Hispanic Center.

**California Population in 2004
(Millions)**



Concentration of Immigrants

In 2004 approximately 1 out of every 4 California residents (26%) was foreign-born. Approximately 1 out of every 16 residents (7%) was an unauthorized immigrant. In the United States, unauthorized immigrants accounted for less than 4% of the total population.

	Immigrants in the Population 2004 (Millions)			Percent of Total Population	
	Total Population	Foreign- Born	Unauthorized Immigrants	Foreign- Born	Unauthorized Immigrants
California	36.6	9.5	2.4	26.0%	6.6%
United States	288.3	34.2	10.3	11.9%	3.6%
CA as % of U.S.	12.7%	27.8%	23.5%	--	--

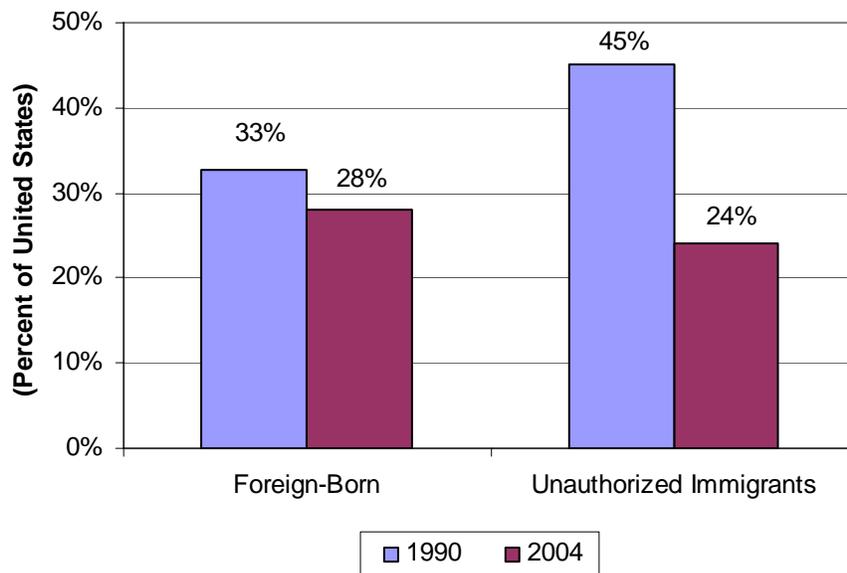
Source: Foreign-Born – US Census Bureau; Unauthorized Immigrants – Pew Hispanic Center

California is less likely to be a destination for immigrants today than it was in 1990. Immigrants have increasingly been moving into states where there were previously very few foreign-born residents. While California had 33% of the nation's foreign-born population in 1990, that share dropped to 28% in 2004.

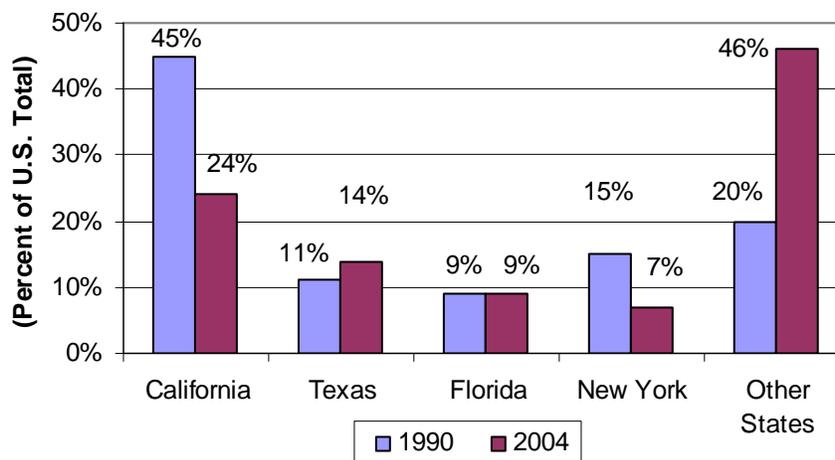
The increase in immigration to other states is especially pronounced in the case of unauthorized immigrants. While California was home to 45% of the nation's unauthorized immigrants in 1990, California's share fell to 24% in 2004.

California, New York, Texas and Florida received the majority of the nation's unauthorized immigrants in 1990 and again in 2004. However, although these four states were home to 80% of all unauthorized immigrants in 1990, their share had fallen to about 50% by 2004.

California's Share of Immigrant Population



Where Unauthorized Immigrants Live

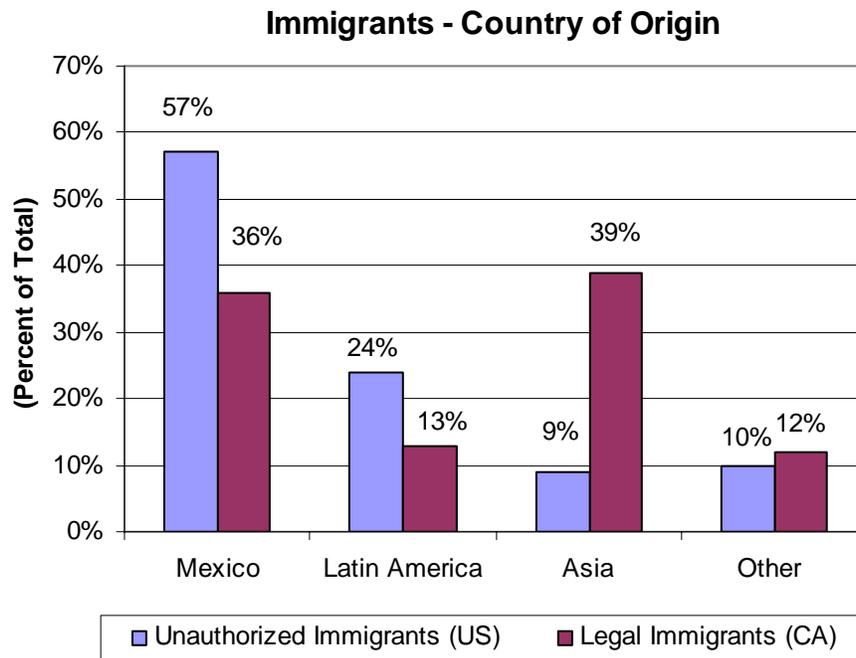


Origin of Immigrants

Approximately 90% of immigrants to California come from Mexico, other parts of Latin America, and Asia. The number of new legal immigrants from Mexico and Asia has been relatively constant in recent years.

Unauthorized immigrants come primarily from Mexico and Latin America. In 2004 more than 80% of unauthorized immigrants came from these two areas.

Asia, which contributes nearly 40% of California's legal immigrants, accounted for less than 10% of the unauthorized immigrants in 2004.



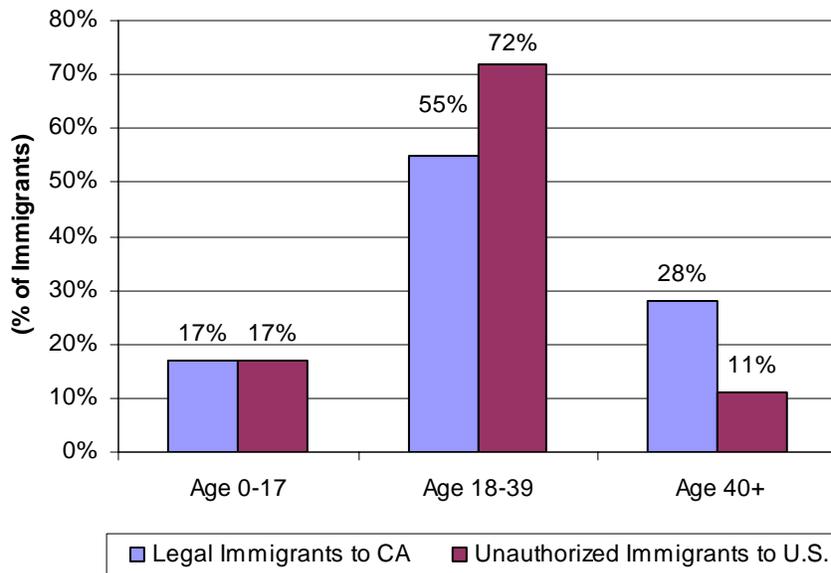
Age of Immigrants

Compared with California's overall population, California's immigrants are more heavily concentrated in the working-age groups. A majority of legal immigrants (55%) and an even larger majority of unauthorized immigrants (72%) are between the ages of 18 and 40.

While 27% of California's overall population is under the age of 18, only approximately 17% of new immigrants are under 18. Although 42% of California's overall population is over the age of 40, only a very small percentage (11%) of unauthorized immigrants are over 40.

Californians are younger than the average United States population. The median age for California residents was 34.1 years in 2003. By comparison, the national average was 36.0 years. California's above-average share of immigrants is a major reason for the difference in median age.

Age Distribution of Immigrants

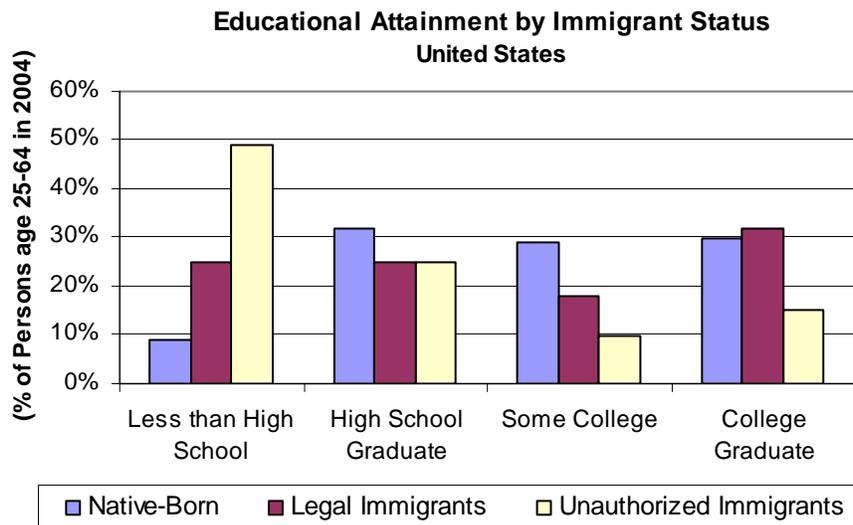
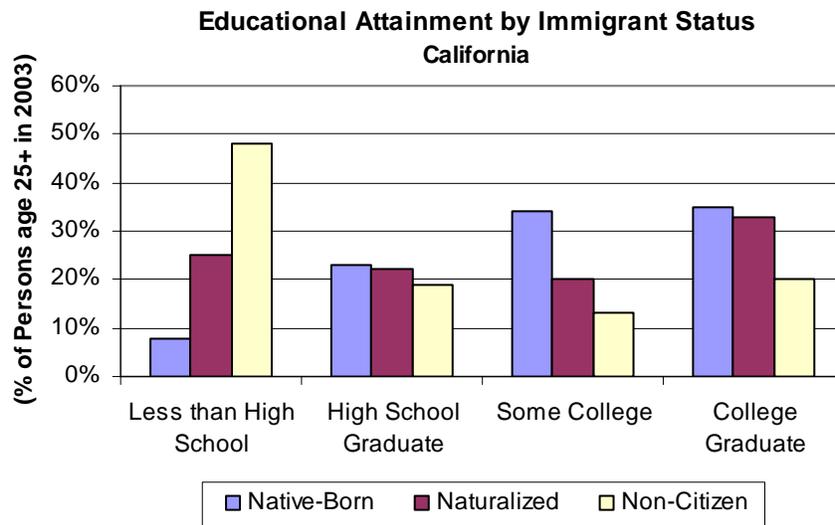


Educational Attainment of Immigrants

The educational attainment of unauthorized immigrants is low compared to that of legal immigrants and native-born residents.

Nearly half of the nation's unauthorized immigrants in the 25-to-64 age groups have less than a high school education. By contrast, only 9% of native-born residents have less than a high school education.

College completion rates for legal immigrants (32%) are slightly higher than those for native-born residents (30%). However, only about 15% of unauthorized immigrants are college graduates.



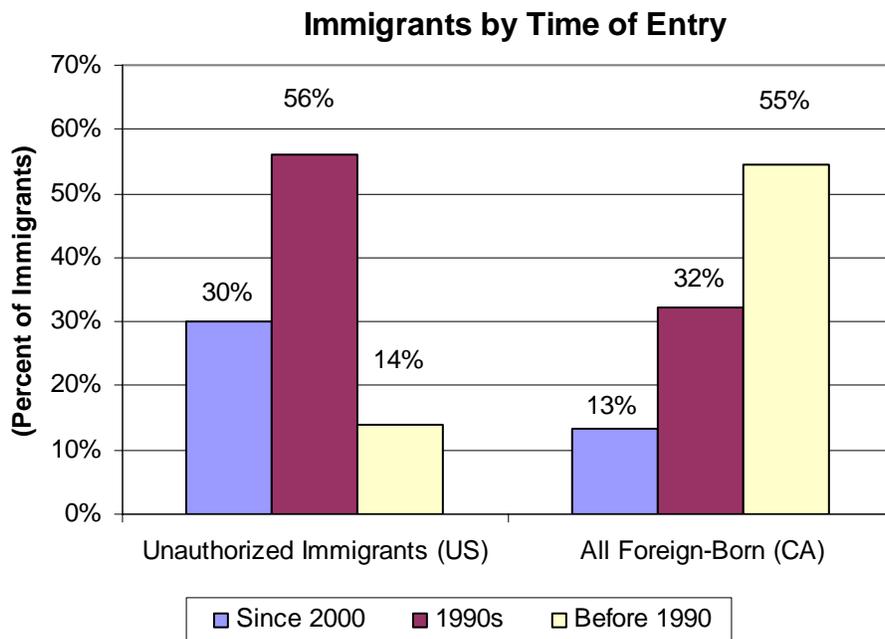
Length of Residence and Economic Status

Length of time in the United States is an important determinant of economic status for immigrants. As discussed later in this report, those immigrants who have been in the United States longer tend to have higher levels of education and income than more recent immigrants.

While there are some exceptions to these trends, poverty rates on average fall significantly with length of stay, and average income rises with length of stay in the United States.

Of all California's current foreign-born residents, 55% arrived before 1990, and 45% arrived between 1990 and 2004.

Most unauthorized immigrants arrived after 1990. Only 14% of unauthorized immigrants arrived before 1990. The majority (56%) came in the 1990s, and 36% arrived during the past four years.



There are two reasons why the large majority of unauthorized immigrants have arrived since 1990:

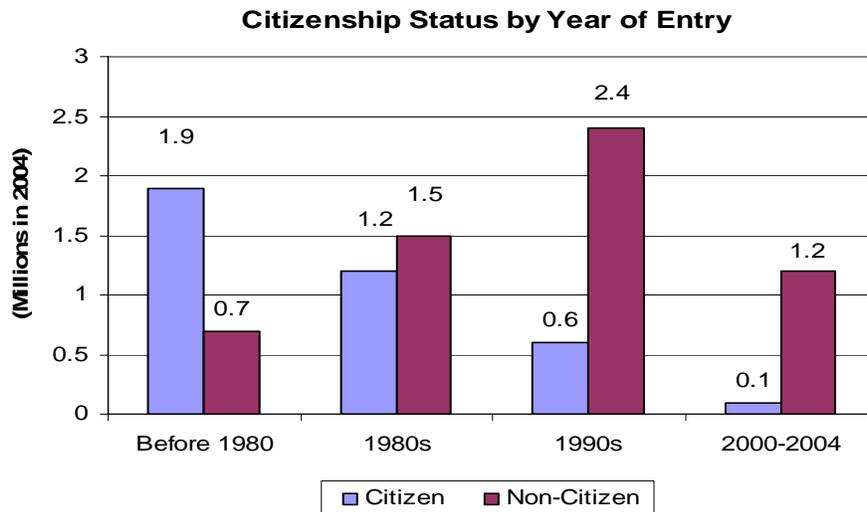
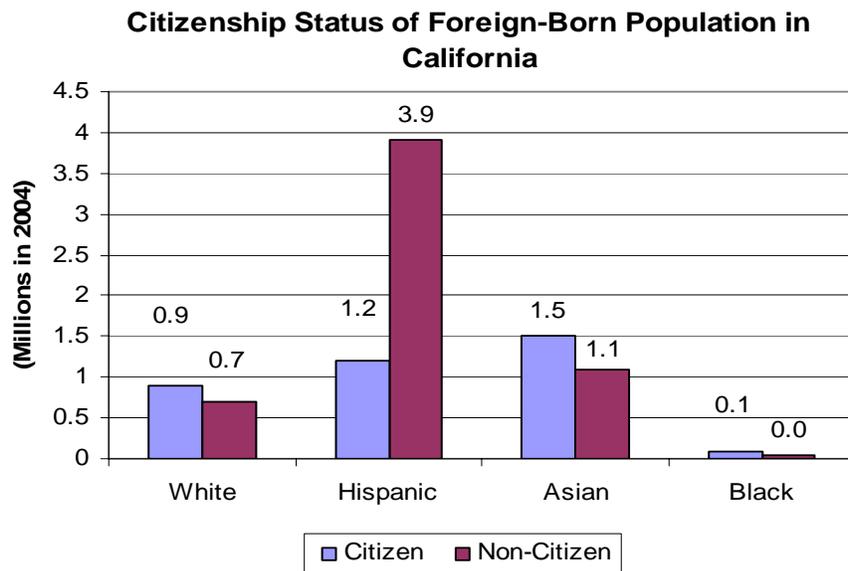
- Many unauthorized immigrants who arrived in the 1980s or earlier were granted legal status in the 1986 amnesty program. Estimates about current unauthorized immigrants do not include immigrants who have changed status and become legal immigrants.
- The level of unauthorized immigration has increased in recent years.

Immigration and Citizenship

The share of immigrants to California who have become citizens varies by year of entry and by ethnic group. Approximately 75% of immigrants who arrived before 1980 have become citizens. On the other hand, only slightly more than 25% of the immigrants who arrived after 1980 have become citizens.

A majority of White, Asian and Black immigrants have become citizens. Less than 25% of Hispanic immigrants have become citizens. Two factors explain these statistics:

- Most Hispanic immigrants arrived after 1980.
- Most Hispanic immigrants are unauthorized, and unauthorized immigrants cannot become citizens.



Immigration and Population Growth

Immigration accounts for approximately 40% of annual population growth in the United States. If immigration levels (legal and/or unauthorized) were lower, the nation's population growth would be lower and vice versa.

At the state level, the relationship between immigration and population growth is more complex. California's share of the nation's population growth is based largely on California's share of the nation's job growth. For both states and smaller regions, population growth follows job growth.

The early 1990s economic recession in California began while population growth was increasing. After two years, the severity of the recession led to a domestic out-migration of more than one million residents. Two years after job growth returned to California, the state began to experience positive domestic migration.

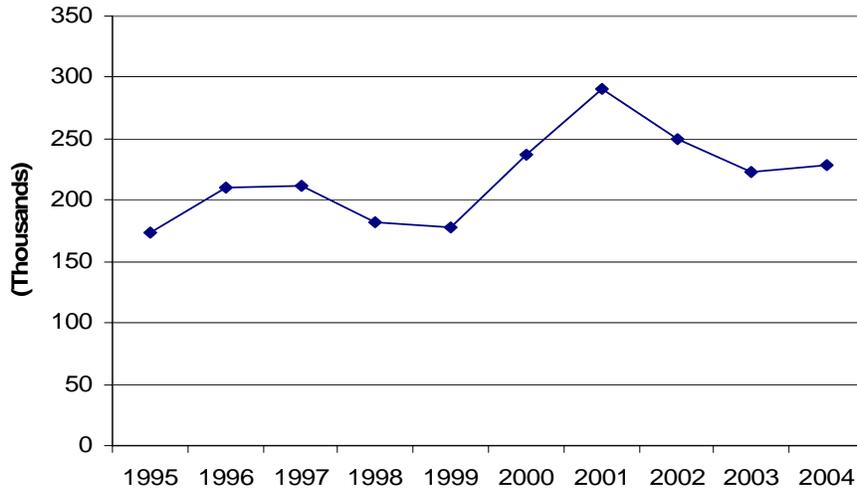
Foreign immigration increases the population and the number of jobs nationally. Everything else being equal, it increases California's population as well. However, California's population growth rate is also dependent on the amount of job growth. Between 1992 and 1996, for example, during the economic recession in California, domestic migration out of California equaled 1.4 million residents. This out-migration was greater than the amount of foreign immigration into the state.

The major fluctuations in California's share of national job growth have little, if anything, to do with immigration flows. Job growth surged in the late 1970s and mid-1980s, as a result of high tech startups and defense spending. Job growth turned negative in the early 1990s as defense spending slowed and housing construction plummeted. Growth surged again with the Internet boom in the mid-1990s, and then slowed after 2000 as many new firms failed and high tech cut jobs.

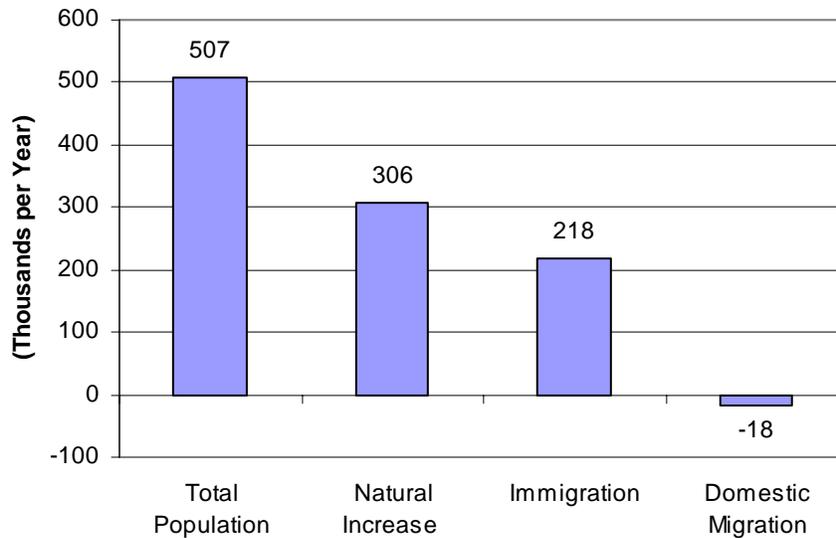
Immigration and Population Estimates

The California Department of Finance develops annual estimates of the state's population. These estimates include population growth from immigration. The DOF estimates that immigration (both legal and unauthorized) averaged 218,000 per year for the ten years ending in 2004. Immigration from foreign countries accounted for approximately 40% of the state's population growth during this ten-year period.

Net Immigration to California



Components of Population Growth in California 1994-2004

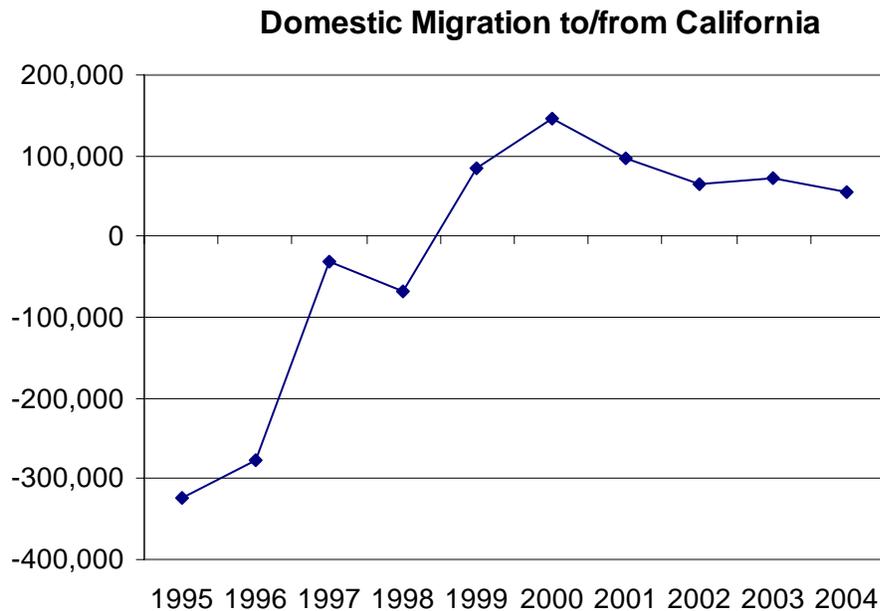


The DOF estimates assume that unauthorized immigration in California was approximately 75,000 per year, or 1/3 of the state's total immigration. The DOF estimates are for **net immigration** and take into account the number of immigrants who leave California to go elsewhere.

However, the DOF is analyzing the Pew estimates (discussed below) and may revise its current estimates of unauthorized immigration flows into California.

Recent estimates from the Pew Hispanic Center indicate that the total number of unauthorized immigrants coming to the United States in the past few years is higher than previously estimated. The Pew Hispanic Center estimates that 700,000–750,000 unauthorized immigrants entered the United States each year since 1995, and that **net unauthorized immigration averaged close to 500,000 per year during this period.**

Domestic migration (that is, migration to and from other states) was significantly negative following the early 1990s recession. Since that time, domestic migration into California has been positive—even through the period of job losses in 2001 and 2002.



Chapter 3

ECONOMIC IMPACT OF IMMIGRATION

Economic improvement is a major motivation for immigration to the United States. Immigrants come because they expect to achieve a higher standard of living for themselves and their families. The direct link between work opportunities and immigration is even stronger for unauthorized immigrants.

Available evidence supports the idea that immigrants, as a group, improve their economic status by moving to the United States. **However, the main focus of research on the economic impact of immigration has been the effects that immigration has on residents (both native-born and recent immigrants) already living here.**

The question that most people are interested in is “Does immigration help or hurt the domestic economy?”

The goal of this chapter is to give a brief summary of existing research on the economic impact of immigration. Particular attention is paid to the effects of unauthorized immigration. To the extent possible, this chapter highlights data on the effects of immigration on the California economy.

The economic impact of immigration falls into two broad categories:

- Effects on the overall economy—including economic growth, unemployment, wages and price levels.
- Effects on individuals—including, in particular, whether individuals' wages or job opportunities are affected as a result of immigration.

The conclusion of most research on the subject is that **immigration provides net economic benefits to domestic residents, although some individuals may suffer losses of income.** In other words, immigration provides net benefits—but there are both winners and losers.

Labor Market Principles Related to Immigration

Much of the political debate about immigration centers around the question of whether immigrants—and particularly, unauthorized immigrants—“take jobs away from” existing residents or whether immigrants “take jobs nobody else wants.”

Both outcomes are possible according to economic theory. A 1997 National Academy of Sciences report concluded that “an increase in immigration flows will lead to higher incomes for productive factors that are complementary with immigrants, but lower incomes for factors that compete with immigrants.”¹

The report concluded that low-skilled immigrants might compete directly with domestic workers with low skills, which could lead to higher unemployment and lower wages for the domestic workers. At the same time, low-skilled immigrants may improve opportunities for high-skilled domestic residents.

A second finding of the National Academy of Sciences report was that “Americans benefit most from immigrants whose skills are very different from those of natives.”² This directly raises the question of whether immigrants take jobs away from other residents or whether they fill jobs that would otherwise go unfilled at current wage levels.

The effects of immigration are similar to the effects of foreign trade, in that there can be **general economic benefits but also economic losses to particular individuals and industries.**

Californians are familiar with the examples of Japanese car imports that began in the 1970s and the recent surge of imports from China. In both cases, there are benefits to residents and businesses. They gain a broader range of goods to choose from, often at much lower prices. On the other hand, some industries will grow more slowly or even decline as a result of foreign competition.

The California Economy During Times of High Immigration

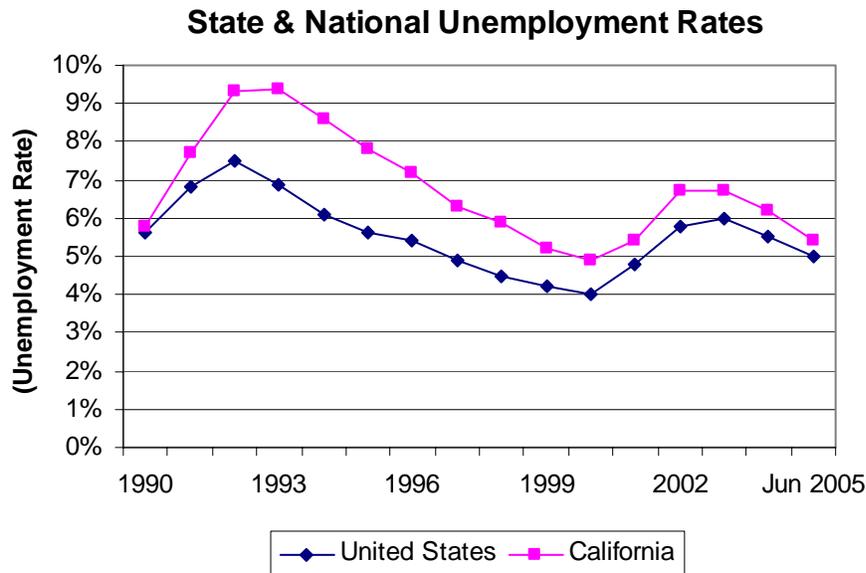
This section looks at recent trends in unemployment, job growth, poverty, wages and migration. In each category, California has performed equal to or better than the nation during times of high immigration into the state.

Unemployment Rate

California's unemployment rate was 2% to 3% higher than the nation's for several years during and after the early '90s recession. The state's higher unemployment rate is accounted for by the slow recovery of its economy from the defense spending downturn and the sharp decline in construction activity.

Since 1994, however, California's unemployment rate has moved closer to that of the nation—even during the period of Internet and technology job losses following 2000. Moreover, California's unemployment rate in 2005 is virtually the same as it was in 1990.

The substantial legal and unauthorized immigration into California has resulted in neither a rising long-term unemployment rate, nor a growth in the gap between the state and the national unemployment rates.

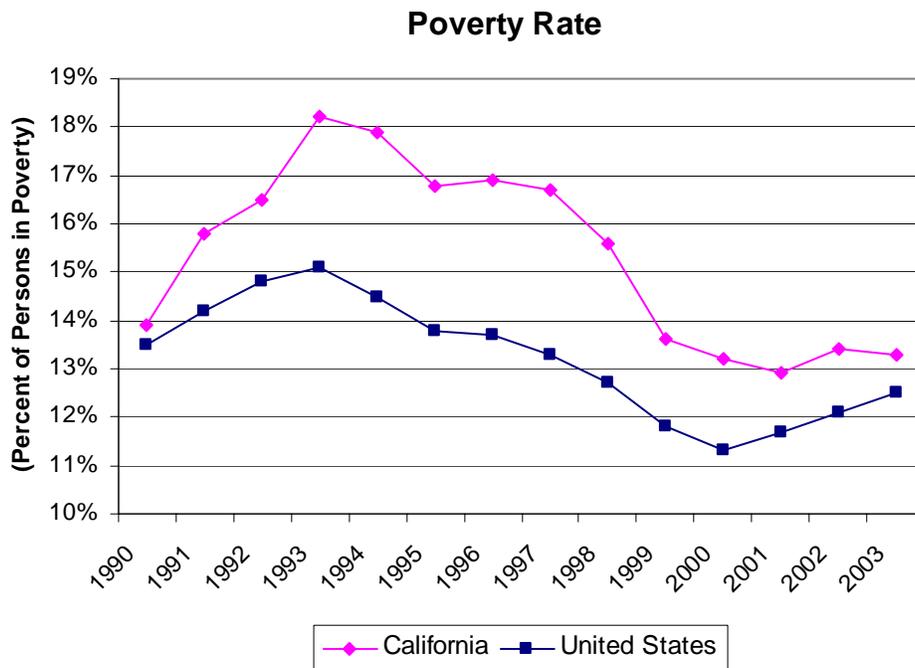


Poverty Rate

Poverty rates in California and the nation increased in the 1970s and early 1980s. The poverty rate rose for children and working-age adults, but fell for people over the age of 65.

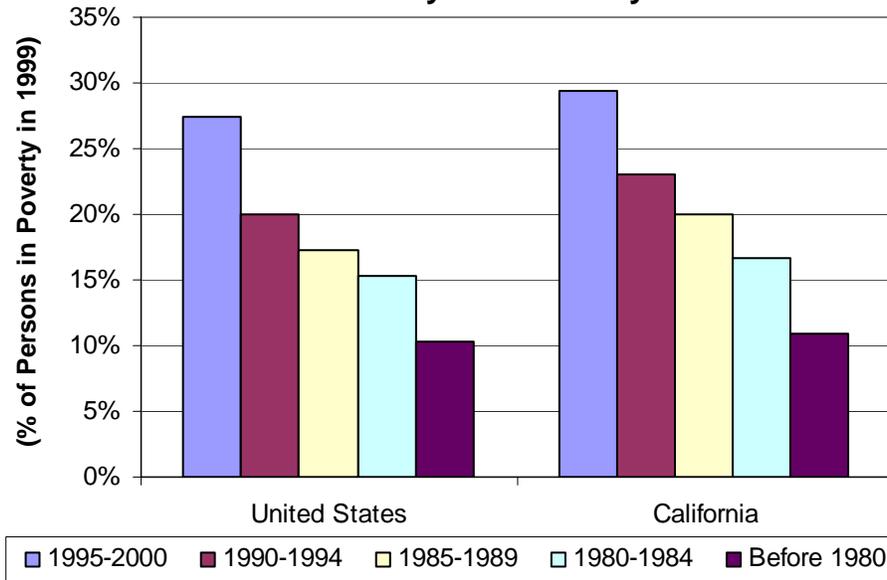
Immigration contributed to the increase in poverty rates in the 1970s and 1980s as a larger share of immigrants came with low educational attainment and job skills. Immigration also contributed to the increase in poverty rates for children.

California's poverty rate rose from 13.9% in 1990 to 18.2% in 1993. At that time, the state's poverty rate was 3% above the national rate. Since then, California's poverty rate has fallen to 13.3%, **lower than its 1990 rate**. Moreover, the state's poverty rate is now closer to the national average than at any time since 1989.



Average poverty rates decline as immigrants are in the United States for longer periods of time. The data shown in the following graphs are from the 2000 Census. Poverty rates for immigrants arriving in 1995 or later were more than double the national average, but poverty rates for immigrants who arrived before 1980 were below the national average.

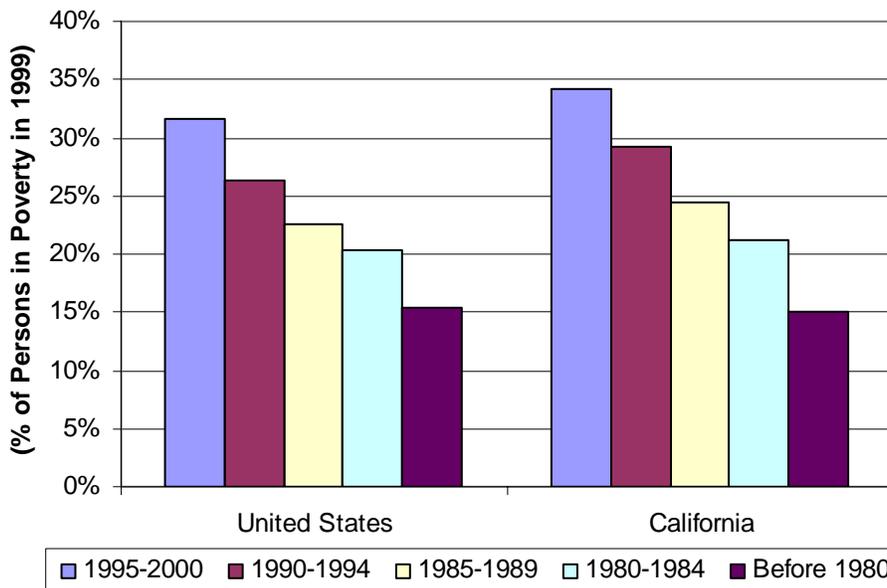
Poverty Rate for Immigrants by Year of Entry



Poverty rates for Hispanic immigrants show the same pattern of declining with length of stay in the United States.

Poverty rates for Hispanic immigrants in California were 34.2% for those arriving in 1995 or later, but only 15.0% for Hispanic immigrants who arrived before 1980.

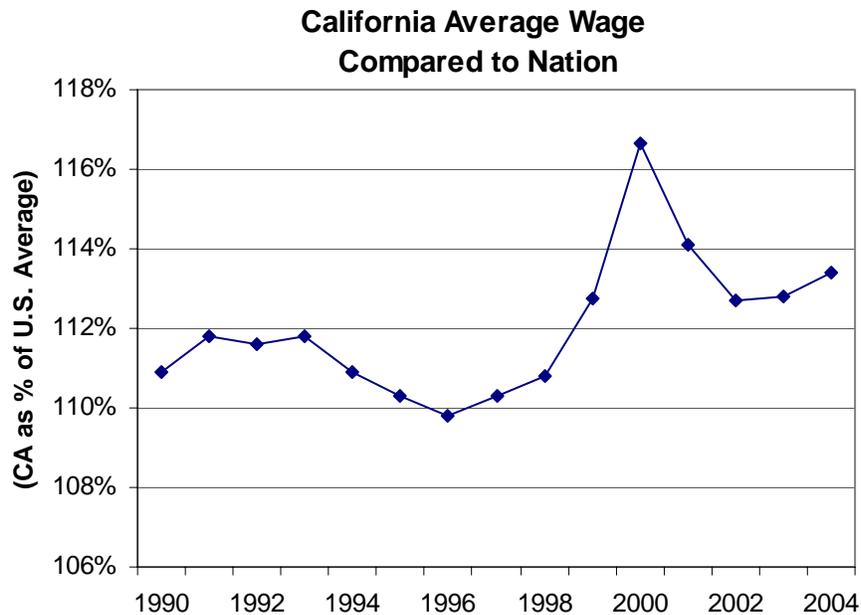
Poverty Rate for Hispanic Immigrants by Year of Entry



Average Wage Levels

Average wage levels in California are higher than in the nation. The major reason for this is that California has an above-average concentration of high-paying industries such as motion picture production, high tech manufacturing and professional services.

In 1990, average wages in California were 10.9% above the national average. In 2004, despite the loss of aerospace and high tech jobs and despite continuing high levels of immigration, wage levels in California had climbed to 13.4% above the national average.

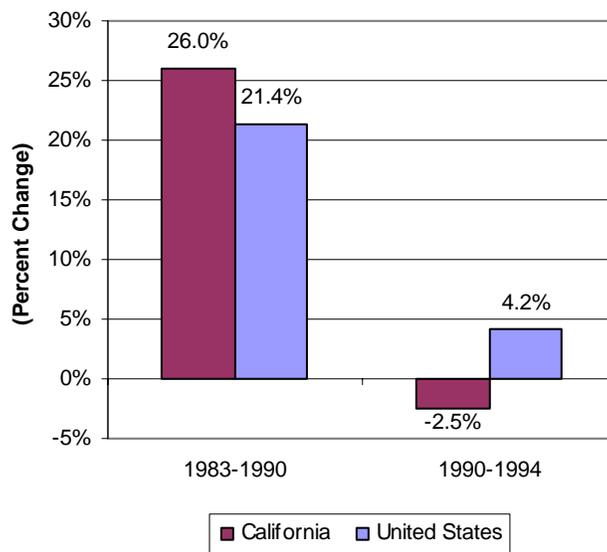


Job Growth

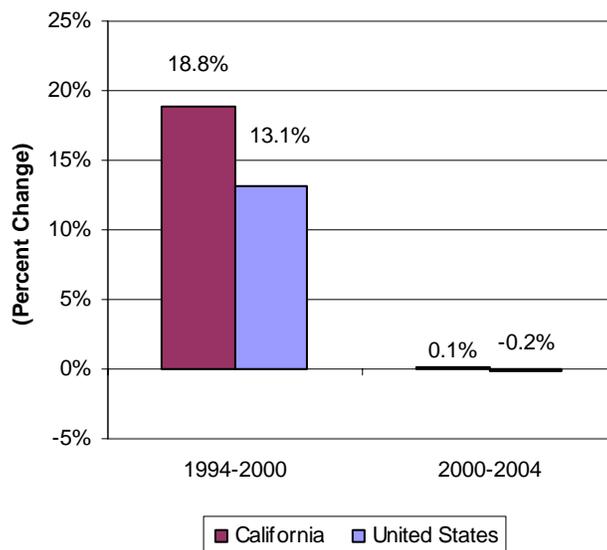
During the past 40 years, California has normally outpaced the nation in job growth when the national economy grew rapidly. During periods of slow national economic growth, California usually matched the nation's job growth rate—except between 1990 and 1994, when California lagged far behind the nation.

The past ten years have seen a continuation of these trends. California outpaced the nation in job growth between 1994 and 2000, and it matched the nation during the slowdown after 2000.

**Non-Farm Wage & Salary Job Growth
1983-1994**



**Non-Farm Wage & Salary Job Growth
1994-2004**

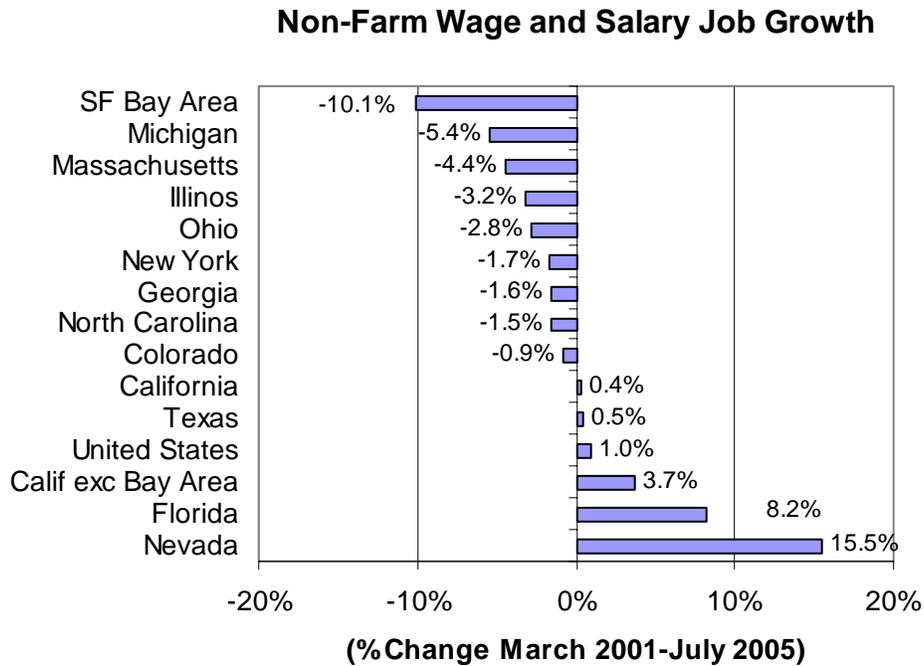


Specific industry events shaped California’s job performance during the 1990-1994 and 2000-2004 periods. In the first period, job losses in defense-related sectors and construction accounted for California’s poor performance.

It is difficult to document that immigration had anything to do with the loss of 500,000 jobs concentrated in Southern California between 1990 and 1994. If anything, California’s large immigration flows should have raised job levels and provided support for construction markets.

After 2000 all of the state’s job losses were concentrated in one region, the San Francisco Bay Area. The losses were primarily related to developments in the tech and Internet sectors. Again, it is difficult to argue that the high tech/Internet downturn occurred as a result of immigration to California.

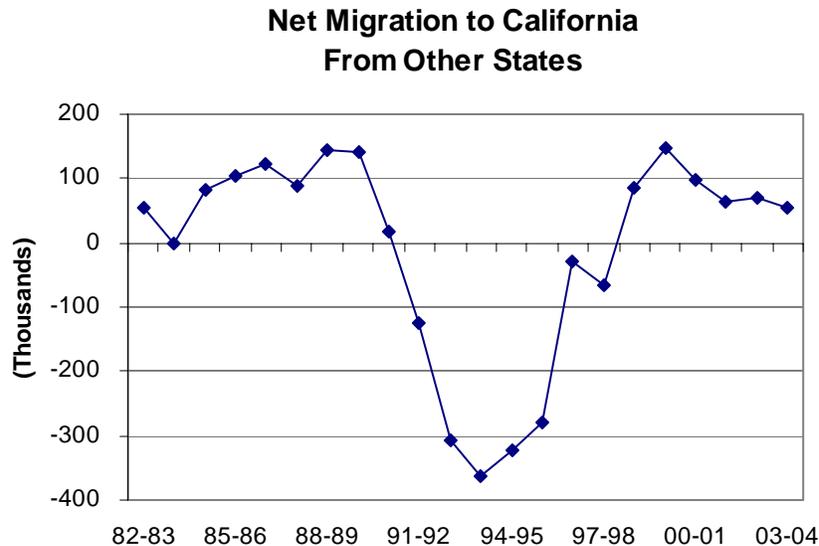
Most regions of California outside of the Bay Area outperformed the nation in job growth during this period. While the Bay Area experienced a job loss of 10.1%, the rest of California had job growth of 3.7%. By contrast, the nation had job growth of only 1.0% during the period beginning in March 2001.



Migration

Evidence about the extent to which immigration might affect the wages of low-skilled residents is discussed later in this report. One reason such evidence is hard to interpret is that people might move away from a region where immigrants are arriving, instead of staying and working for lower wages.

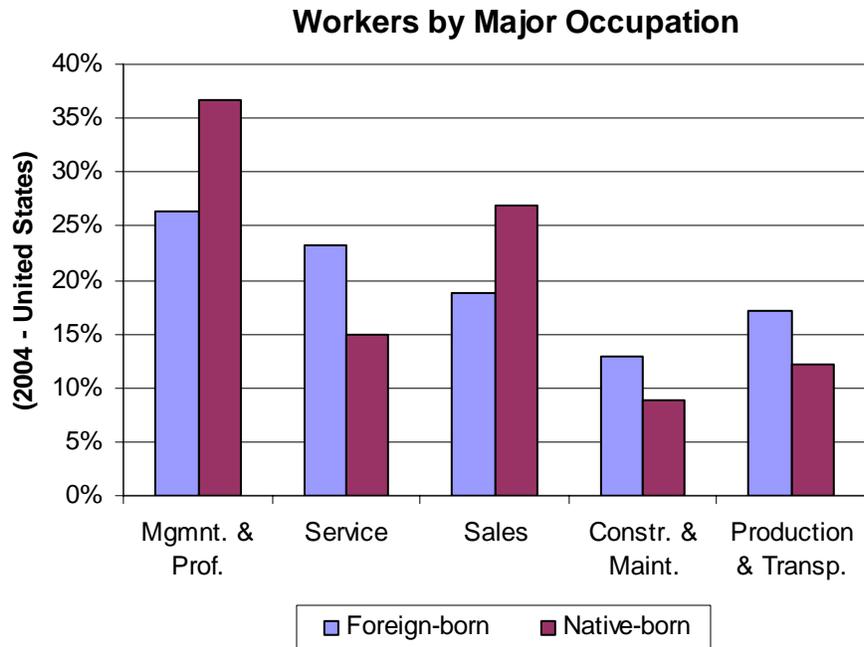
Overall, domestic migration to California has been positive except during the economic recession in the early 1990s. While it is possible that individual residents may have moved out of state in order to avoid competition with immigrants, the overall trends show continuing domestic migration to California even as immigration remains high and housing prices move to record levels in relation to the rest of the nation.



Where Do Immigrants Work?

This section describes the occupations and industries in which immigrants work. The initial focus is on all foreign-born residents, including both legal and unauthorized immigrant residents. The final part of this section looks at unauthorized immigrants only.

Foreign-born residents are more likely to work in service, construction and production occupations in comparison with native-born residents. Foreign-born residents are less likely to work in management and professional occupations, compared to native-born workers.



Occupation by Region of Origin

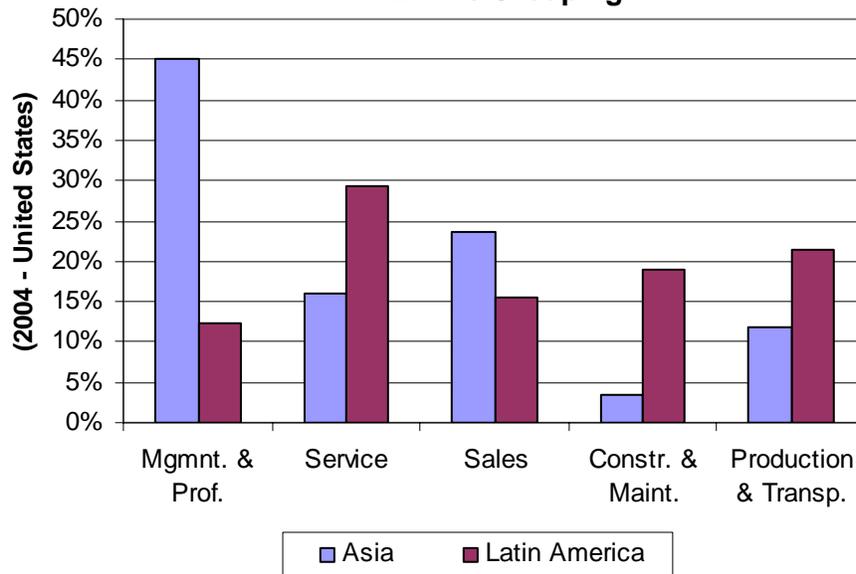
The occupational profile of foreign-born residents differs substantially, depending on their region of origin. Nearly half (45%) of Asian foreign-born workers are in management and professional occupations. This is higher than the share for native-born workers. On the other hand, only 12% of workers from Latin America were in this occupational group in 2004.

Workers from Latin America were more concentrated in service, construction, production, transportation and materials-moving occupations than were workers from Asia or native-born workers.

Immigrants can create benefits for the overall economy if they bring skills or ideas that end up creating products and jobs in the United States. This concept is recognized in special immigration provisions for employment-based immigration and in programs like the H-1B visa program. (For more detailed information, see <http://uscis.gov/graphics/howdoi/h1b.htm>.)

These programs are intended to bring in workers in high-demand occupations for a temporary period. There is controversy in some cases of H-1B visas about whether there are native-born workers available and willing to fill these jobs.

Workers by Major Occupation Ethnic Grouping



A Public Policy Institute of California publication, *Silicon Valley's New Immigrant Entrepreneurs*, reports on the impact of foreign-born Silicon Valley entrepreneurs and concludes:

Skilled immigrants are an increasingly important, but largely unrecognized, asset for the California economy. Over the past decade, Chinese and Indian engineers have started hundreds of technology businesses in Silicon Valley. These new immigrant entrepreneurs generated jobs, exports, and wealth for the region and they have simultaneously accelerated the integration of California into the global economy. The long-distance social and economic linkages they are constructing contribute at least as importantly to the region's economic dynamism as the more direct job and wealth creation.³

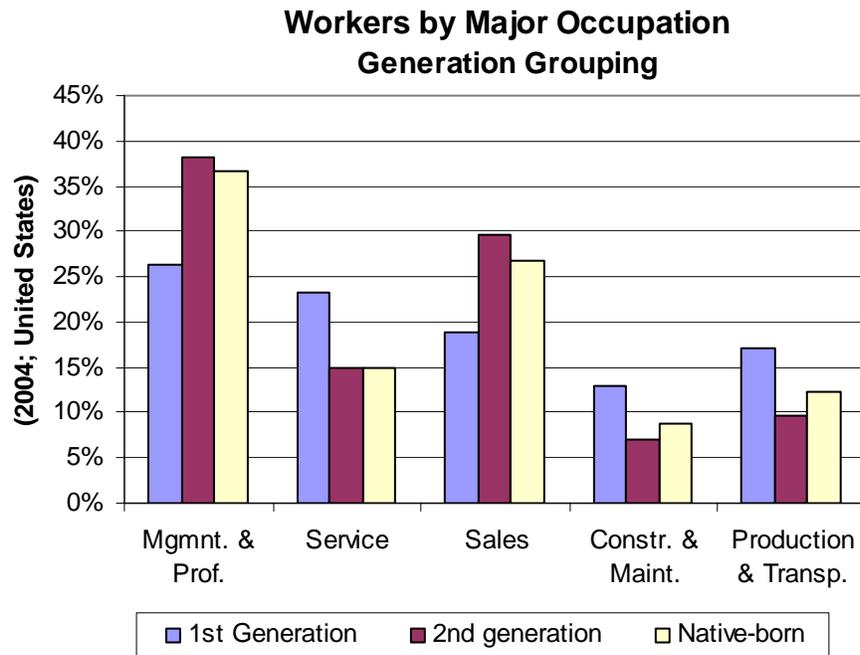
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The economic effect of skilled immigrants, in particular, is not limited to labor supply and wage effects. Some of their economic contributions, such as enhanced trade and investment flows, are difficult to quantify, but they must figure into our debates. The national debate over the increase of H1-B visas for high-skilled immigrants, for example, focused primarily on the extent to which immigrants displace native workers. Yet we have seen here that these immigrants also create new jobs and economic linkages in their role as entrepreneurs. Economic openness has its cost, to be sure, but the strength of the California economy has historically derived from its openness and diversity—and this will be increasingly true as the economy becomes more global.⁴

Occupation by Generation

The occupational profile of foreign-born workers also differs substantially by generation. The children of immigrants (defined as *second generation*) have occupational profiles similar to those of native-born workers.

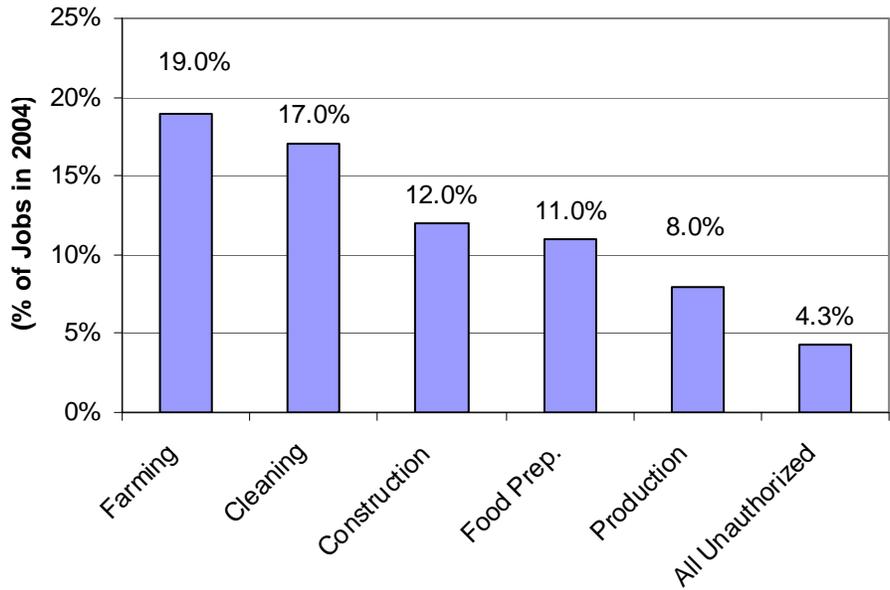
For example, 38.6% of second-generation workers are in management and professional occupations, compared to 36.6% of native-born workers. In each major occupational category, the second generation has shares that are nearly the same as for native-born workers.



Unauthorized Immigrants

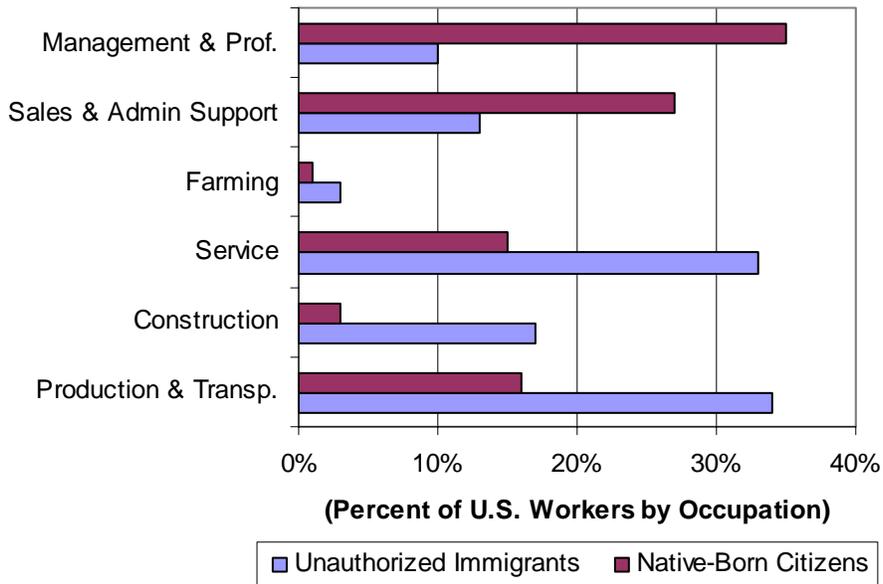
Current unauthorized immigrants are concentrated in low-wage occupations in the nation, and that finding is likely duplicated in California. Unauthorized immigrants account for 4.3% of all workers nationwide. However, they represent 19% of farming workers, 17% of workers in cleaning occupations and 12% of construction workers, as shown in the following graph.

Unauthorized Immigrants in U.S. Occupations



The occupational profile of unauthorized workers is similar to the profile for all recent immigrants and immigrants from Latin America. Compared to native-born workers, unauthorized immigrants are concentrated in service; construction and production occupations. They are also under-represented in professional and sales occupations.

U.S. Workers by Occupation

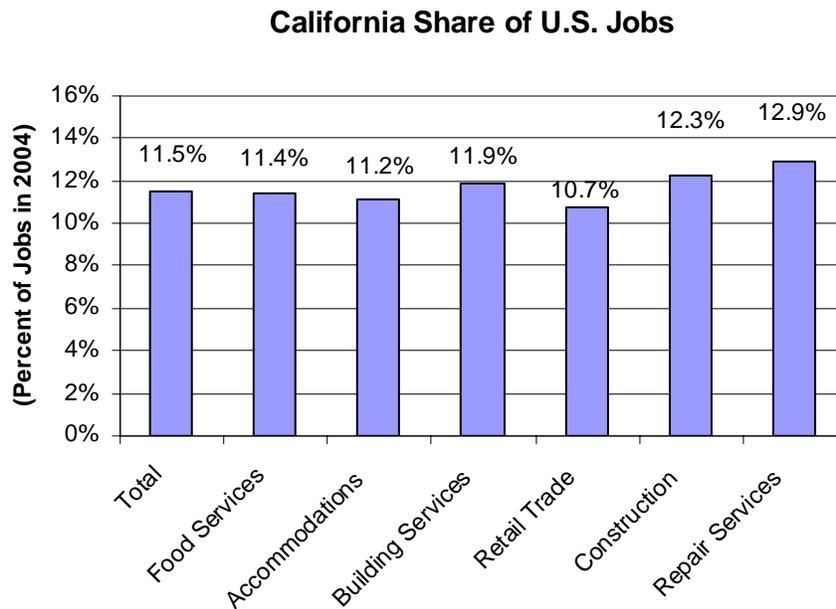


These findings are consistent with the low average levels of educational attainment for unauthorized immigrants and their related low income levels.

Does California Have a Concentration of Low-Wage Jobs?

The following graph shows California's share of the nation's jobs in industries that have a high concentration of unauthorized immigrants and low-wage jobs. California has 11.5% of overall jobs and a similar share of jobs in construction, food services, repair, accommodations, retail trade and building services.

Immigration may have changed who holds these jobs in California, but has not led to a much higher concentration of specifically low-wage sectors in the California economy.



Impact of Immigration on Individual Workers

Economic theory suggests that a large influx of immigrants who compete directly with the existing workforce in terms of skills could lower wages and/or raise unemployment rates for existing workers. Many statistical studies have attempted to measure these effects.

The existing research is summarized in a number of articles. The National Academy of Sciences report *The New Americans: Economic, Demographic and Fiscal Impacts of Immigration* presents a bibliography on this subject in chapter 5. A research study published by the Federal Reserve Bank of Dallas in August 2003 also provides a bibliography that includes more recent studies. (See their website at <http://www.dallasfed.org/research/papers/2003/wp0302.pdf>.)

The National Academy of Sciences report summarizes the findings of these studies as follows:

Potentially, immigration could have large effects on certain parts of the labor market—workers in geographic areas that receive large numbers of immigrants or those with low levels of education. However, the evidence on local labor markets shows only a weak relationship between native wages and the number of immigrants. This evidence also indicates that the numerically weak relationship between native wages and immigration is observed across all types of native workers, skilled and unskilled, male and female, and black and white. Ironically, the one group that appears to suffer substantially from new waves of immigrants are immigrants from earlier waves.

.....

The evidence points to the conclusion that there is only a small adverse impact of immigration on the wage and employment opportunities of competing native groups. This effect does not appear to be concentrated in the local areas where immigrants live, but instead is dispersed across the United States. This dispersal comes about in part because competing native workers migrate out of the areas to which immigrants move.⁵

The *Economic Report of the President* transmitted to Congress in February 2005 summarizes the impact of immigrants on wage levels as follows:

Several economic studies have attempted to measure the wage impact of immigration on natives and previous immigrants—a challenging task because it is necessary to take into account all other factors that might plausibly affect wages, such as the responses by capital and labor outlined above. Such studies also have to take into account that immigration itself is driven by favorable economic conditions such as high or rising wages. With those caveats in mind, a typical finding is that, on average, immigration has little effect on native wages..... Generally, estimates suggest that a 10 percent increase in the share of foreign-born workers reduces native wages by less than one percent. Recent studies that look at wage effects by skill levels typically find larger negative effects on less-skilled than medium- or high-skilled native workers. Adverse wage effects on previous immigrants have been found to be on the order of 2 to 4 percent.⁶

The report continues:

A new immigrant with limited English skills, for example, will likely compete closely with other recent immigrants with poor English ability and in jobs that do not require institutional, technical, or advanced language skills, such as janitorial services or child care. If immigrants become concentrated in certain states or cities, natives might also respond by moving to locations with relatively less competition from immigrants. Although research findings suggest so-called *native flight* may have occurred in the 1980s, the experience of the 1990s suggests the opposite—that immigrants and natives were drawn together by economic growth.⁷

Long-Term Impact and Ability to “Move Up” the Earnings Ladder

It is not possible at this time to determine the long-term economic effects of rising levels of immigration of workers who have low educational attainment and job skills. The long-term impact will depend on how these immigrants and their children progress over time and meet the needs of the state and national economies.

There is broad evidence that immigrants make economic progress after 10 to 20 years, and that the children of immigrants move further up the occupational and income ladder. However, because the recent level and type of immigration is new, and because recent immigrants and their children are just at the beginning of their residency in the United States, there is no direct evidence about how the recent low-skilled immigrants will do.

In theory, there can be large-scale economic benefits from the influx of young immigrants into an aging workforce where a wave of retirements will occur in the next twenty years. The benefits will depend on recent immigrants and their children being able to “move up” the educational and occupational ladders. This moving up will depend on their individual effort **and** the educational and training opportunities available to them.

It is likely that the United States will experience continuing high levels of immigration. The “move up” scenario is the best chance for continuing immigration to benefit the overall economy. To the extent that new immigrants bring low skills to the workforce, they can fill jobs vacated by previous immigrants who have moved up—as long as the children of previous immigrants are not themselves concentrated in low-skilled jobs.

Rising levels of educational attainment and training are one major component of an economic competitiveness strategy for the state and the nation—a strategy that will benefit both the native-born residents and the immigrants and their children.

Chapter 4

FISCAL IMPACT OF IMMIGRATION

The fiscal impact of immigration (that is, the public service costs and the taxes paid) is one factor to consider when assessing the impact of immigration in California. There are also economic, social and cultural considerations.

All California residents receive public services, and most residents pay taxes. High-income residents who consume few public services end up contributing some of their tax payments to cover the cost of services for other residents. Low-income residents and most children consume more in public services than they pay in taxes. The difference between the cost of public services used and the taxes paid is what economists call the *fiscal balance* for each resident.

The fiscal balance of immigrants is probably the most hotly debated topic in the immigration debate in the United States and California. People and organizations that wish to reduce immigration levels point to fiscal impact studies as a reason why immigration is bad for the state and nation. The fiscal balance of unauthorized immigrants receives even more attention in the nation's debate over immigration policy.

Overview and Methodological Issues

Most of the existing quantitative studies of the fiscal impact of immigration were conducted in the 1990s. Nearly all of these studies looked at fiscal effects in a single recent year. Some of the studies focused specifically on fiscal impact in California.

Most of the studies reached the following four conclusions:

- The current fiscal impact (that is, the fiscal balance) of immigration was negative. Immigrants used more in public services than they contributed in taxes.
- Fiscal effects were most negative for state and local governments. Fiscal impact on the federal budget was more neutral.
- Fiscal effects were most negative in states that had a high concentration of recent immigrants.
- Fiscal effects were more negative for unauthorized immigrants than for any other group of residents

The negative fiscal balance is a result of two principal causes:

- Immigrants as a group (especially unauthorized immigrants) have below-average incomes, particularly in their first years of residence in the United States.
- Immigrants as a group have an above-average number of children.

The fiscal balance of immigrants is much the same as that of native-born residents with below-average incomes and above-average numbers of children.

Inadequacy of Single-Period Analyses

National Research Council reports from 1997 and 1998 describe the economic framework for conducting a comprehensive fiscal impact analysis. The reports identify several difficult methodological challenges in conducting fiscal impact analyses. They also identify specific problems with the single-period fiscal impact studies that were reviewed.

Three particularly important problems with single-period analyses (that is, analyses that look at only one historical year) are as follows:

- They fail to account for the long-term fiscal impact of immigrants as they move through the workforce and retire.
- They are based only on the current age distribution of immigrants (that is, the current ratios of children, workers and retirees).
- They treat education as a cost item only. They do not take into account the investment aspect of education spending.

These and other important characteristics of a framework for fiscal analysis are set forth in the MaCurdy, Nechyba and Bhattacharya paper in Chapter 2 of the 1998 National Research Council book *The Immigration Debate*. After examining existing fiscal impact research, these analysts reached the following conclusion:

Ultimately, a serious shortcoming of these studies is the static model used for calculation. All existing studies ignore some critical intertemporal effects that impinge on how certain taxes and transfers should be counted. As our framework demonstrates, the current and future period effects could have opposing impacts on the fiscal costs and benefits of immigration. Many of the elements discussed in our synthesis have a dynamic component that should not be ignored. For example, education expenditures on immigrant children are invariably counted as a cost in the accounting schemes of the various papers. However, they are also an investment

designed to make the young generation more productive in the future. Thus, the extra education expenditures result in future higher fiscal inflows that should be counted in the analysis at an appropriate discount rate.⁸

Another issue involves how to account for the American-born children of immigrants. American-born children of immigrants are United States citizens at birth. As such, they are entitled to all services for which American citizens are eligible. The NRC research recommends including the American-born children of immigrants in any long-term fiscal analysis. This means including the costs of educating these children, as well as their contribution to taxes and spending when they enter the workforce and throughout their lifetime as residents.

Education—Cost or Investment?

Education makes up the largest component of public service costs for immigrants—especially unauthorized immigrants—in California. In the static (single-period) analysis, poor families with children do not pay enough in taxes to cover the costs of educating their children. To the extent that immigrant families, and especially unauthorized immigrant families, have below-average incomes, they too will not pay enough in taxes to cover the current costs of educating their children.

A number of studies have attempted to quantify the costs of educating the children of unauthorized immigrants. While these studies come up with different estimates, they all show that educating these children creates costs for other residents in the current period, just as it does in the case of the children of poor native-born families.

However, education spending is also an investment. Higher earnings are strongly associated with increasing levels of educational attainment. Adults with more education earn significantly more than adults with less education, and there is a strong earnings premium for college graduates.

Measuring the increased earnings and tax-paying ability associated with more education is complicated. However, such measurement is essential to accurately represent the full fiscal impact of educating children—whether native-born or foreign-born. Because the direct costs of education come first and the increased earnings come afterwards, measuring the fiscal impact of investing in education requires identifying a way to discount the future benefits so they are not overstated in relation to the current costs.

The fiscal impact of educating the children of immigrants, which can be negative in the near-term, could be positive when viewed over their full lifetime.

Taking the Longer-Term View

Education is one area where it is especially important to take the longer-term view. It is important to understand that education affects the future income prospects of individuals. The final accounting for spending education dollars today cannot be determined without taking into consideration the future earnings and tax-paying prospects of today's students.

Age has a substantial effect on the fiscal balance of residents. Children almost always have a negative fiscal balance. Working age residents usually contribute more in tax dollars than they use in public services. The fiscal balance for retired residents can be positive or negative.

Currently, immigrants living in California are younger than native-born residents. The immigrant population contains an above-average percentage of children and young workers and a below-average share of residents aged 65 and older. The relative youth of the immigrant population is part of the reason for the negative fiscal balance reported for immigrants in recent years.

The fiscal balance for immigrants is likely to change as the age distribution changes. For the near-term future period, the fiscal balance of today's immigrants is likely to improve as the children enter the workforce and the working-age adults gain experience and move into their peak earning years.

The long-term fiscal balance depends on age and income characteristics of immigrants 20 years from now. It also depends on their eligibility for Social Security and Medicare and the benefits they receive.

The 1997 study of the National Research Council of the National Academy of Sciences devoted a chapter (chapter 7) to describing the factors involved in analyzing long-term fiscal effects of immigration. The report concluded:

Averaging across ... characteristics, immigrants under our baseline scenario have a negative fiscal impact at the state and local level, but a larger, positive impact at the federal level, resulting in an overall positive impact for the United States.

Under most scenarios, the long-run fiscal impact is strongly positive at the federal level, but substantially negative at the state and local level. The federal impact is shared evenly across the population, but these negative state and local impacts are concentrated in the few states that receive most of the immigrants.

The average fiscal impact of immigrants under the baseline assumptions is positive in part because they tend to arrive at young working ages, in part because their descendants are expected to

have higher skills and incomes, in part because they pay taxes for some items, such as national defense and interest on the federal debt, for which they do not impose costs, and in part because they will help to pay the public costs of the aging baby-boom generations.⁹

Fiscal Balance Varies by Jurisdiction

Federal payroll taxes for Social Security and Medicare are the largest tax payments made by low-income residents, regardless of whether they are immigrants or native-born citizens. However, the largest public service costs are for education—and most of these costs are paid for at the state and local level.

When the distribution of all public service costs and tax payments is taken into account, all studies of the fiscal effects of immigration agree that the fiscal balance is negative at the state and local level.

Moreover, the state and local fiscal effects are felt most keenly in jurisdictions with higher shares of low-income immigrants. Some jurisdictions experience more negative fiscal balances than others.

Immigration policy in the United States is a federal responsibility. Congress sets immigration eligibility rules and limits, and the federal government has the responsibility for border security.

Because immigration policy is a federal responsibility, and because the fiscal balance for immigrants can be positive at the federal level and negative at the state and local level, states with large immigrant populations—whether legal or unauthorized—regularly ask Congress for financial assistance to offset the current costs of serving unauthorized immigrants. Some federal financial assistance is granted for emergency Medicaid costs and for prison costs, but that federal assistance covers only approximately 10% of the costs of these programs.

Eligibility of Immigrants for Public Services

Most immigrants are eligible to receive most public services. **However, federal and state health and social service programs do have limitations on eligibility, especially for unauthorized immigrants.**

All residents benefit from public service programs that are *public goods*—those from which no one can be excluded. National defense is a public good, as are clean air and water. Most local public services such as police and fire protection, libraries and parks function as public goods.

Court decisions have consistently confirmed that K-12 education is a right of all children, including unauthorized immigrant children. Native-born children of unauthorized immigrants are U.S. citizens and have the same eligibility and are entitled to the same benefits as native-born children.

Local, state and federal prisons house immigrants, including unauthorized immigrants, who are convicted of crimes requiring a prison sentence. The federal government shares the cost of incarcerating unauthorized immigrants, although the federal matching share covers only a small percentage of the total costs.

Legal immigrants are eligible for Social Security and Medicare Part A (hospitalization). Unauthorized immigrants are not eligible for these benefits, even though they pay into these systems if they are using someone else's Social Security card.

Most other health and social service benefits have eligibility restrictions, including restrictions for legal immigrants who came after 1996 and have been in the country less than five years. Federal law was changed in 1996 as part of welfare reform. At that time, a five-year waiting period was established for legal immigrant eligibility for SSI, TANF (welfare), and Medicaid. Legal immigrants who came before 1996 also must meet a five-year residency requirement to receive food stamps or Medicare coverage other than hospitalization.

Emergency Medicaid assistance is the main federal benefit program open to unauthorized immigrants. The federal government shares in the costs of emergency Medicaid benefits. However, the percentage of costs shared is small—despite constant pressure from states for higher reimbursements.

Information on eligibility is summarized by the National Immigration Law Center at http://www.nilc.org/pubs/guideupdates/guide_errata&update_022205.pdf.

Information on eligibility for California programs is summarized at http://www.nilc.org/ciwc/tbls_other-mats/Cal_Benefits_Table_9-22-04.pdf.

It is important to note that most empirical studies of the fiscal effects of immigration were conducted before the five-year waiting rule was adopted for some federal benefit programs.

Program Eligibility for Unauthorized Immigrants

Several studies have been made on the fiscal effects of immigration in California. Although these studies do not agree on all of the policy implications or the details of the estimates, they do agree that the major public service costs related to unauthorized immigrants are concentrated in three areas:

- K-12 education — Courts have ruled that all children have access to public education.
- Public health care programs — Including some Medi-Cal services and uncompensated care at county and nonprofit hospitals.
- Prison costs — Including state prisons and local jails.

California provides emergency Medi-Cal services as required by federal law. It also provides pre-natal and delivery services, as well as long-term care, to unauthorized immigrants.

All residents receive local public services, including police and fire protection, libraries and recreation services.

Existing Studies of Fiscal Effects of Immigration

The National Research Council report quoted above raised concerns about the methodology and interpretation of existing fiscal impact studies. These concerns were shared in a RAND review published at about the same time. In *The Costs of Immigration to Taxpayers*, analysts George Vernez and Kevin McCarthy conclude:

Existing studies of the costs of immigration do not provide a reliable or accurate estimate of the net costs and benefits of immigration—even when those costs and benefits are defined narrowly. Moreover, without reaching consensus on a host of conceptual and accounting issues, we doubt that additional studies will shed light on these important policy questions.¹⁰

Interested readers may wish to review the following three assessments of the fiscal effects of immigration in California:

- *Fiscal Impacts of Undocumented Aliens: Selected Estimates for Seven States*, The Urban Institute (www.urban.org), 1994.
- *The Fiscal Impacts of Immigrants: A California Case Study* in Chapter 7 of the National Research Council of the National Academy of Sciences report *The Immigration Debate*, 1998.

- *The Costs of Illegal Immigrants to Californians*, Federation for American Immigration Reform (FAIR) www.fairus.org.

Estimates from Existing Studies

It is fairly straightforward to estimate the current costs of education, health care and prisons for unauthorized immigrants. It is more difficult to fairly account for their tax payments. The real difference between the various groups doing these studies is in the interpretation of the findings. None of the existing studies addresses the issues raised above about the need to interpret fiscal effects in a long-term context.

K-12 Education

The Federation for American Immigration Reform (FAIR) study used an estimate of 425,000 unauthorized immigrant K-12 students in 2004. The average cost per student was \$7,577, for a total of \$3.2 billion. FAIR added an additional \$4.5 billion for the native-born U.S. citizen children of unauthorized immigrants.

There are no official estimates of the number of K-12 students who are unauthorized immigrants, or of the number of native-born children of these immigrants. The Pew Hispanic Center data could be consistent with a slightly smaller number of students. However, even if the number of students were 20% lower, the costs would still be near \$6 billion annually.

Health Care

The federal government recently announced that California would get \$71 million as reimbursement for emergency medical services to undocumented immigrants. The California Hospital Association estimates that California spends approximately \$500 million per year on emergency medical services to undocumented immigrants. Approximately \$300 million is spent on births and pre-natal care for the children of undocumented immigrants; these children are U.S. citizens at birth.

Prison Costs

According to the Governor's 2005-2006 budget, the California Department of Corrections expects to spend \$730 million in 2005-2006 for incarceration of undocumented prisoners. California usually gets reimbursed for 10-12% of these costs from the federal government. **The issue of adequate federal aid is a major source of controversy between states with large undocumented immigrant populations and the federal government.**

The FAIR report estimates higher costs for health care and prisons, in part by including local government prison and health care costs.

Interpretation

The National Research Council studies and other studies raise many methodological and measurement questions about getting accurate estimates of the fiscal effects of immigration and, particularly, unauthorized immigration.

The methodological and measurement issues (many of which are mentioned earlier in this chapter) derive from the fact that existing studies

- Generally omit long-term impacts;
- Differ on which costs should be attributed to immigrants;
- Differ on how to account for taxes paid by immigrants;
- Count all education spending as a cost (rather than an investment) and omit the benefits of investing in education;
- Differ on how to incorporate the children of immigrants;
- Do not generally take a comprehensive look at federal, state and local fiscal impacts; and
- Look at a single point in time and do not estimate trends in fiscal impacts.

Chapter 5

IMMIGRATION AND THE FUTURE CALIFORNIA ECONOMY

Immigration levels in the nation will affect California's rate of population growth. California will attract a higher or lower share of the nation's population and immigrants, depending on 1) the rate of job growth in the state, and 2) how the job skills of future immigrants match California's workforce needs.

As reported in previous chapters, immigration and the associated higher rates of population growth can have net economic and fiscal effects that are positive or negative or neutral, depending on the skills that immigrants develop and how these skills match needs in the economy.

Discussing **immigration's future impact on the state** puts focus on the finding that the effects of immigration should be assessed over a longer period of time. The short-term impact of immigration on the economy or on government budgets can change as immigrants enter and move through the workforce.

During the next 25 years, most of California's current foreign-born residents will enter or remain in the workforce. The majority of students in the state's K-12 school system will be the children or grandchildren of recent immigrants. Many of these students will enter the workforce during the next 25 years.

The economic and fiscal effects of immigration in California will depend, in part, on the education and income of the children and grandchildren of recent immigrants.

Immigrants and Their Children in California's Future

The material in the following sections draws heavily from the work of Dowell Myers and the USC California Demographic Futures Project. The Project has developed demographic projection models that include projections by ethnic group **and by generation**. The Project's California population projections are consistent with the totals population projections of California Department of Finance (DOF), but they add the dimension of looking at differences and changes between generations as well as between ethnic groups.

In the following discussion, the term *second generation* refers to the children of immigrants, and the term *third generation* refers to residents born to parents who were both born in the United States. As a result, the data for immigrants, second generation and third generation residents add up to the total population of the state.

Central Findings of the USC Analyses

The central findings of the USC Demographic Futures Project analyses are as follows:

- The growth of California's foreign-born population is slowing.
- The growth of the second generation is accelerating.
- The immigrant population's length of residence in the U.S is increasing.
- The growth of the working-age population will be very different in coming years from how it was in the last decade.

The U.S.C. projections assume that immigrants and their children will remain in California. As discussed throughout this report, that assumption is true only if the skills of these groups match the demand for workers in California. Otherwise, some immigrants and/or their children are likely to move away from the state.

Growth of California's Foreign-Born Population is Slowing

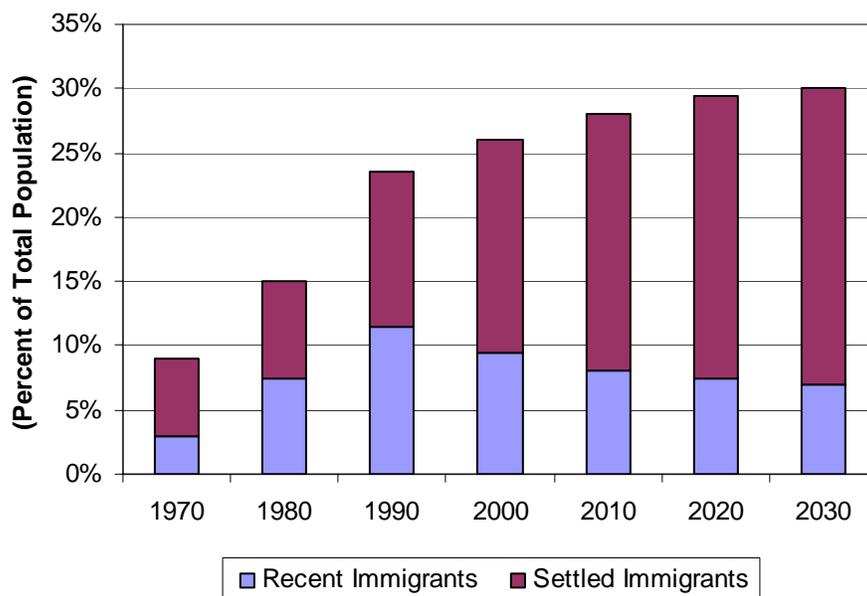
The USC projections anticipate continuing growth in the number of foreign-born residents in California. This share is projected to increase slightly, from 26% in 2004 to near 30% by 2030.

Settled vs. Recent Immigrants

The composition of California's foreign-born population will change over the next 25 years. One substantial change is in the length of time that immigrants will have lived in the United States. In the discussion below, the term *recent immigrant* is used to refer to a foreign-born resident who has lived in the United States for ten years or less, and the term *settled immigrant* is used to refer to a foreign-born resident who has lived in the United States for more than ten years.

Recent immigrants accounted for 11.5% of California's population in 1990. By 2000 the share of recent immigrants had dropped to 9.5%, while the share of settled immigrants had risen to 16.5%.

Immigrants as Percent of California Population



While immigration to California will continue, the share of the state’s population accounted for by recent immigrants will continue to decline. The share of recent immigrants is projected to fall to 7.5% by 2020 and 7.0% by 2030.

On the other hand, the share of California’s population accounted for by settled immigrants is projected to increase, from 16.5% in 2000 to 23.0% by 2030.

Accelerating Growth of Second Generation

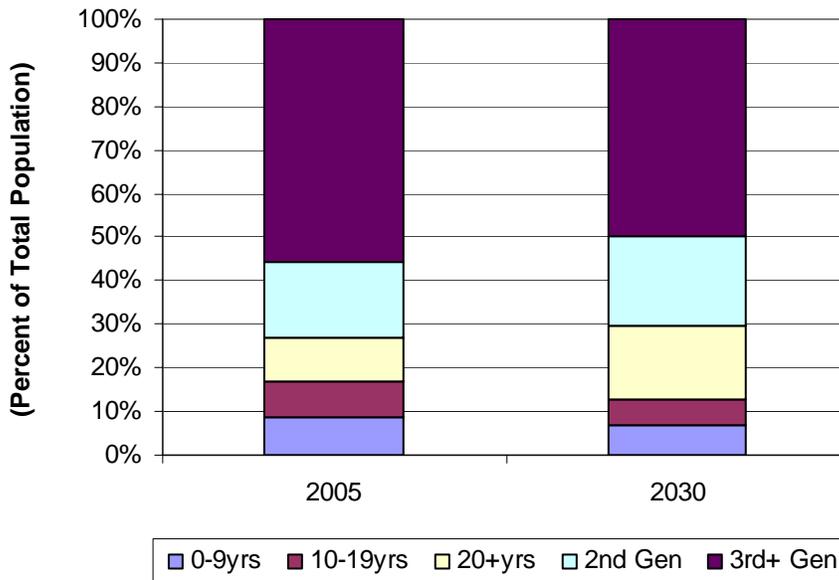
The USC analysis indicates that California’s future population will include more children of immigrants and more immigrants who have been in the United States for at least 20 years. Both of these groups are projected to grow faster than California’s overall population.

Increasing Average Length of Residency

All of the immigrants who came to California between 1990 and 2005 will have been in the state for at least 25 years by 2030. As a result, the share of the state’s population represented by foreign-born residents is projected to increase from 10.1% in 2005 to 16.9% in 2030.

The share of California’s population accounted for by children of recent immigrants is also projected to grow—from 17.2% in 2005 to 20.6% in 2030.

California Population by Immigrant Length of Residence and Generation



The average length of residency of Latino immigrants rose from 12.1 years in 1980 to 14.6 years in 2000. The average is anticipated to reach 22.5 years in 2030. Among Asian immigrants, the comparable figures are 10.0 years (1980), 22.4 years (2000) and 22.5 years in 2030.

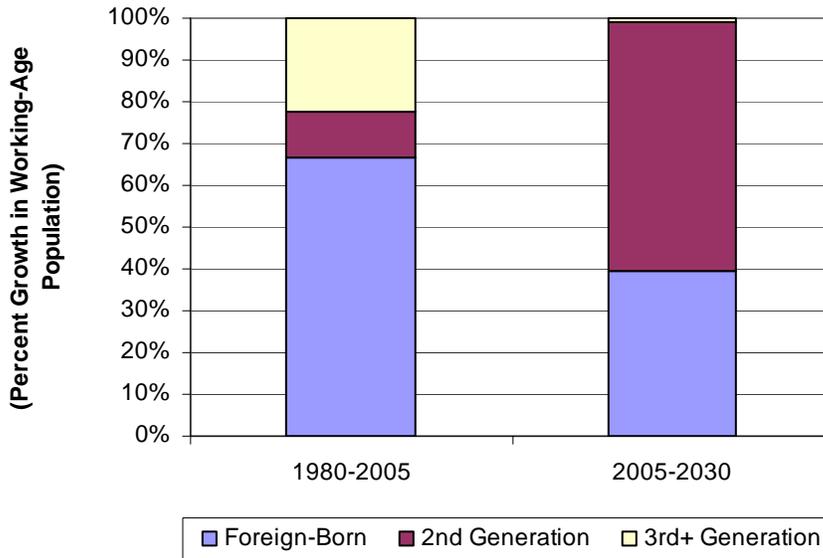
California’s Future Working-Age Population

The projections reported here assume that immigrants and their children will remain in the California labor force.

Foreign-born residents and their children are projected to account for nearly all of the growth in California’s workforce between 2005 and 2030. Two thirds of the increase is projected to come from Hispanic immigrants and their children.

Some third-generation residents of all ethnic groups are projected to enter California’s workforce between 2005 and 2030, but an equal number will leave the workforce—primarily as a result of retirement. **As a result, it is likely that first- and second-generation immigrants and their children will play a large role in determining the future characteristics of California’s workforce.**

Growth of California's Working-Age Population by Generation



Characteristics of Second and Third Generations

The children born in the United States of immigrant parents are native-born United States citizens. They are not counted in the statistics collected about immigrants. However, the children and grandchildren of immigrants are here as a result of immigration and are therefore included in the long-term analysis of the impact of immigration on the California economy.

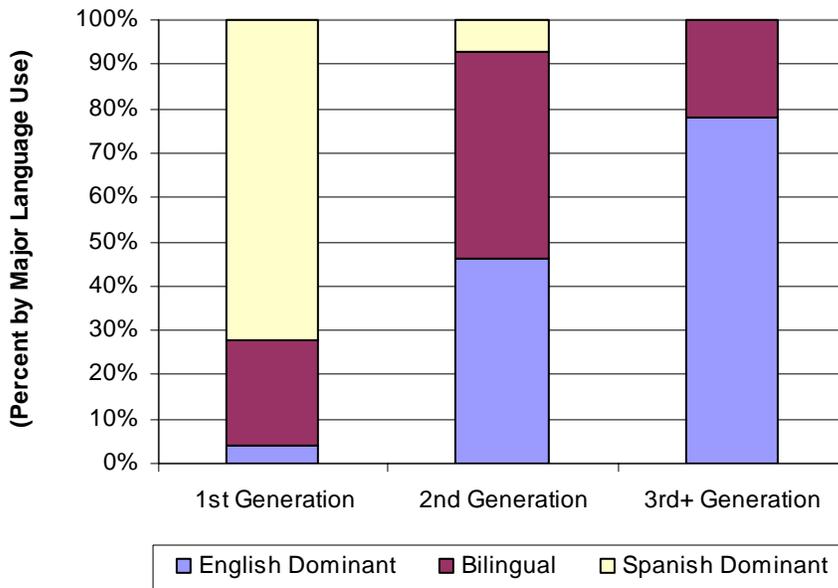
Both the USC research and the Pew Hispanic Center have found substantial differences in the characteristics of immigrants according to length of residence in the United States—as well as according to generation (first-generation immigrants, their children and their grandchildren). Because the majority of recent immigrants to California and the nation are Latino, the data presented below relates to Latino generational differences.

Language dominance changes dramatically between generations of Latino immigrants and their children. More than 70% of the first generation are Spanish dominant, but that amount falls to 4% in the second generation and 0% in the third generation.

Only 4% of Latino immigrants use English as their primary language. That percentage rises to 46% in the second generation and 78% in the third generation. The remaining immigrants in each generation are bilingual.

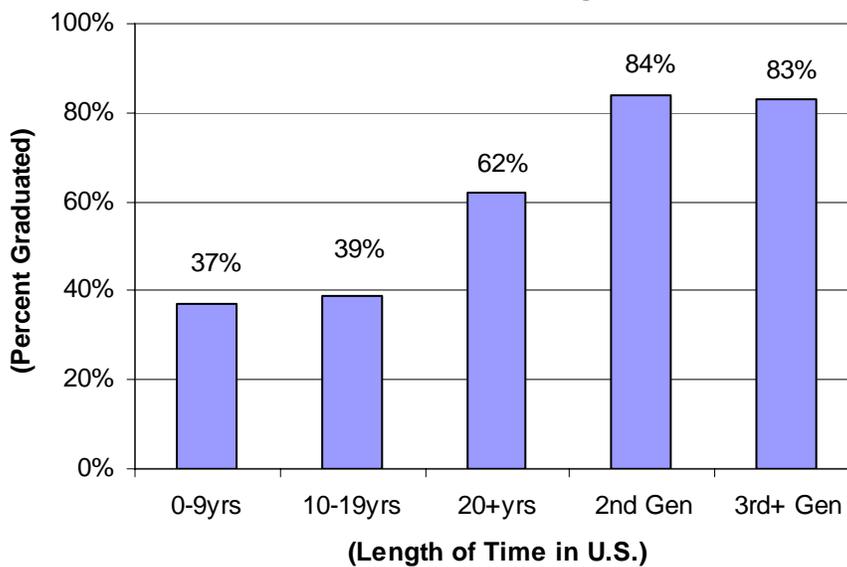
The Public Policy Institute of California (www.ppic.org) has also published analyses of California's immigrant population by generation.

Primary Language Among Latinos United States in 2002



High school graduation rates also differ substantially with length of stay in the United States. For example, only 37% of recent Latino immigrants ages 25-34 have graduated from high school. However, the high school graduation rate rises to over 80% for the children of immigrants.

High School Graduation Rate California Latinos Age 25-34



Education Will Help Shape California's Future Economy

Because California's future workforce will include substantial numbers of children and grandchildren of recent immigrants, their education, skill and income levels will help determine whether the longer-term economic and fiscal effects of immigration are positive or negative or neutral.

California's economy has an above-average concentration of jobs that require high levels of education and training. In past years California has competed successfully for high-wage jobs on the basis of the education and training of its workforce.

California will have an increasingly younger population than the nation over the next 25 years. The high concentration of immigrants is the primary reason for California's comparative youth.

The education and skill levels of the state's future population will be determined by the success of California's K-12 and higher education systems. The next generation of children and grandchildren of immigrants are likely to have even greater English proficiency and high school graduation rates than today's second and third generation.

But success in today's economy and tomorrow's economy depends increasingly on participation in post-secondary education and training activities, such as going to college.

Higher Education is Key

The data above indicate the likelihood that the children and grandchildren of recent immigrants will speak English and graduate from high school. It is true, however, that current college attendance and graduation rates for children of Hispanic immigrants are below the state average.

Information on the coming enrollment challenges facing higher education in California and the issues related to increasing rates of college attendance is available from many sources including the Campaign for College Opportunity (www.collegecampaign.org) and the California Legislative Analyst's Office (www.lao.ca.gov). The topic is also covered in the recently published *California: 2025* report by the Public Policy Institute of California (www.pplic.org).

The PPIC report specifically linked the state's future economy to the higher education opportunities that it provides for the children and grandchildren of recent immigrants:

Residents entering the workforce over the next 20 years will increasingly be Latinos—a group that now has lower levels of

education. Latino immigrants and second-generation Californians, as well as other growing minority and low-income groups with low education, will have to attend college in larger proportions than today to meet the employment demands of 2025. Otherwise, the state will have to import college-educated workers in larger numbers than it does now from other states and abroad. If these college-educated migrants do not come, prospects for economic growth will suffer. That is a real possibility because we could face stiff competition with other states that offer college-educated workers a lower cost of living and more affordable housing than California can offer today and is likely to offer in the future.

If California's children and youth do not acquire a college education before they enter the workforce in the coming decades, they face the prospect of low or no employment, a lack of opportunities for high-paying jobs, and a greater likelihood of depending on public health and social services. For the state, the stakes could not be higher.¹¹

Conclusion

Final answers about the impact of immigration on the California economy will not be known for many years. Much of today's research was conducted in the early 1990s. At the time of this writing, most of those immigrants have been in the United States for an additional 10 years. Whatever impact they had on the economy and the state and local budgets during the original studies, the impact is now likely to be different.

The impact of these immigrants could be different again in another 10 years. Moreover, some of the impact of immigration in the 1980s and 1990s will be determined by the contributions of their children or grandchildren.

What will success look like? Higher levels of education and training should lead to higher levels of income. The fiscal impact of higher-income residents is nearly always more positive than that of lower-income residents, regardless of country of origin or ethnic group.

For California, success in educating immigrants and their children could improve the economic competitiveness of the state's workforce and reduce the need to import highly skilled workers. Overall incomes could be higher for all residents if California remains attractive to high-wage industries.

Success would also mean that California job and population levels would likely be higher than if the state's workforce were less educated. Not only would immigrants and their children be more likely to stay in California if they could get

well-paying jobs, but other people would be more likely to come to California if the state were a leader in high-wage job growth.

What will failure look like? Since recent immigrants and their children and grandchildren will account for most of California's workforce growth during the next 25 years, the failure to raise college participation and graduation rates would have an initial negative impact on the overall skill level of the state's workforce.

Attracting skilled workers to California could be more difficult in the future than during the past 40 years. As a result, lower levels of educational attainment in the state's resident workforce could pose a more severe challenge to maintaining leadership in key industries. In this sense, the education of the children and grandchildren of recent immigrants could play a major role in determining California's future economic competitiveness.

Failure in California is likely to spread throughout the nation. There is no strong evidence that workers—whether immigrants or native-born—stay in market areas that have poor job and wage prospects. The 1990s produced strong evidence to the contrary.

As discussed earlier in this report, there was a large out-migration from Southern California when unemployment rates rose relative to the nation in the early 1990s. Immigrant families dispersed to other states and localities that previously had had few foreign-born residents.

There will always be a place for some low-skilled workers in the state and national economy. However, if too many low-skilled workers end up in California, it is likely that some will move to other areas that have growing labor market demands and much lower costs of living.

If the nation's level of educational attainment lags relative to that in other countries (for example, China and India), long-term wage growth in the United States will likely be lower than if educational attainment were higher. However, the wage and income losses are likely to be spread throughout the country and not concentrated in a single state such as California.

Appendix:

DATA SOURCES FOR THIS REPORT

This appendix lists the data sources used in writing this report. Data sources for all graphs and tables that appear in this report are listed according to the chapter in which they appear.

I. The three data sources used in preparing the graphs and table in Chapter 2, “California Immigration Trends,” were as follows:

California Department of Finance

- Total population
- Legal immigrants
- Age of legal immigrants
- Educational attainment of immigrants
- Time of entry of immigrants
- Citizenship status of immigrants
- Total immigration
- Components of population growth
- Domestic migration

Pew Hispanic Center

- Unauthorized immigrants in California and the United States
- Where unauthorized immigrants live
- Unauthorized immigrants’ age, educational attainment, and time of entry

United States Census Bureau

- Foreign-born population in California and the United States

II. The five data sources used in preparing the graphs in Chapter 3, “Economic Impact of Immigration,” were as follows:

California Employment Development Department (EDD)

- California unemployment rate
- California job levels and growth

California Department of Finance (DOF)

- Net migration to California

Pew Hispanic Center

- Unauthorized immigrants by occupation

U. S. Bureau of Labor Statistics (BLS)

United States unemployment rate
Wages in California and the United States
U.S. job levels and growth

U.S. Census Bureau

Poverty rate of immigrants
Poverty rates in California and the U.S. (*Current Population Survey*)
Workers by occupation in the U.S. (*American Community Survey*)

III. The two data sources used in preparing the graphs in Chapter 5, "Immigration and the Future California Economy," were as follows:

Pew Hispanic Center

All United States data

USC Center for Demographic Futures

All California data

ENDNOTES

Chapter 3: California Immigration Trends

¹ National Academy of Sciences, National Research Council, *The New Americans: Economic, Demographic, and Fiscal Effects of Immigration* (Washington, D.C.: National Academy Press, 1997) 137.

² National Academy of Sciences, 142.

³ AnnaLee Saxenian, *Silicon Valley's New Immigrant Entrepreneurs* (San Francisco, California: Public Policy Institute of California, 1999) 73.

⁴ AnnaLee Saxenian, 75.

⁵ National Academy of Sciences, 236.

⁶ President's Council of Economic Advisers, *Economic Report of the President* (Washington, D.C.: United States Government Printing Office, 2005) 105.

⁷ President's Council of Economic Advisers, 105.

Chapter 4: Fiscal Impact of Immigration

⁸ National Academy of Sciences, National Research Council, *The Immigration Debate: Studies on the Economic, Demographic, and Fiscal Effects of Immigration* (Washington, D.C.: National Academy Press, 1998) 61.

⁹ National Academy of Sciences, *The New Americans*, 353.

¹⁰ George Vernez and Kevin McCarthy, *The Costs of Immigration to Taxpayers: Analytical and Policy Issues* (Santa Monica, California: Rand, 1996) 51.

¹¹ Ellen Hanak and Mark Baldassare, eds., *California 2025: Taking on the Future* (San Francisco, California: Public Policy Institute of California, 2005) 6.

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