

As California Goes

Facts (and Fiction) behind California's Fiscal Meltdown

By Edwin S. Rubenstein

In the Great Recession every state is hurting. Tax receipts are tanking, social spending is exploding, and deficits are piling up. But California seems to be in a class of its own. California is the only state that is constantly running out of cash. It's the only one asking Washington for its own bailout package. It's the only state that never closed the deficit from the last downturn—the one that began with the dot.com bust at the beginning of the decade.

Why California?

Liberals say taxes are too low—the result of a restrictive web of tax limitations and citizen initiatives. Yet these (alleged) revenue constraints do not seem to have worked very well: As a percent of income, California's state/local tax burden ranks 6th highest nationally, according to the Tax Foundation. (<http://www.taxfoundation.org/research/topic/15.html>)

The state's top income tax rate—10.3 percent—is the highest in the nation, and this surely explains why the richest 1 percent of residents end up contributing half of all the personal income taxes the state collects. Even the state sales tax rate—a poor man's levy—is well above the national average.

Conservatives are convinced spending is out of control. There is, to be sure, plenty of waste and abuse. But the state of California could fire every government employee and close every government office without closing its budget gap. Many vital programs have been cut to the bone. Medi-Cal, for

Edwin S. Rubenstein, President of ESR Research Economic Consultants in Indianapolis, is the author of The Earned Income Tax Credit and Illegal Immigration (Social Contract Press).

example, pays primary-care doctors just \$26 for an office visit with a patient. There is no simple way to cut this amount, or other poverty benefits, without eviscerating the social safety net for the deserving poor.

The usual suspects—high spending and low taxes—are not to blame. In their place stands something far more fundamental: demographic change. An ever-growing share of California residents are immigrants. The vast majority of immigrants are from Latin America (56 percent) and Asia (35 percent). They are generally young, poorly educated, and mired in low-income jobs that do not provide health insurance. Their English is often rudimentary. They depend on state social services at far higher rates than natives or earlier immigrant cohorts.

About one-third of California's immigrants entered the country illegally. Many work off the books, yet their children are entitled to the full gamut of public education and Medi-Cal benefits.

Latino families are larger than those of other immigrant groups. Their children swell elementary schools but are less likely than other groups to graduate high school or finish college. Second-generation Latinos are also less likely to grow up with two parents, and more likely to go to jail or become teenage mothers. By most measures, second-generation Mexicans look more like the children of native-born blacks.

Many observers—including prominent Latin Americans—have concluded that the same traditional values that lie behind Latin America's difficulties in achieving prosperity and political stability are being substantially perpetuated among Hispanic immigrants and their descendants in California. This implies that the problem is primarily cultural, not economic, and that fiscal measures alone will not suffice to solve it.

Immigration reform may be the only viable answer—in California and the nation.

California’s Immigration Tsunami

Between 1970 and 2006 the number of California residents born abroad increased by more than five-fold, from 1.8 million to 9.9 million. Currently the state has a much higher share of immigrants in its population than the U.S. as a whole (27 percent vs. 13 percent) or the state with the next highest share of immigrants, New York (22 percent.)

For more than a century California has set the immigration trend for the nation:

ing is a deliberate attempt to obscure the true impact of immigration on population.

Using official state figures, demographer Leon Bouvier (<http://www.thesocialcontract.com/pdf/thirteen-four/xiii-4-250.pdf>) concluded that immigration accounts directly and indirectly for 98 percent of California’s population growth between 1990 and 2002. Direct immigration contributed 57 percent of the rise, while the rest came from births to foreign-born women.

Behind the headline statistics are two telling factoids. First, net migration from other states has virtually ceased. Traffic congestion, schools, the

water crisis, the state’s fiscal meltdown, are all a big turn-off to citizens of other, less troubled parts of the country.

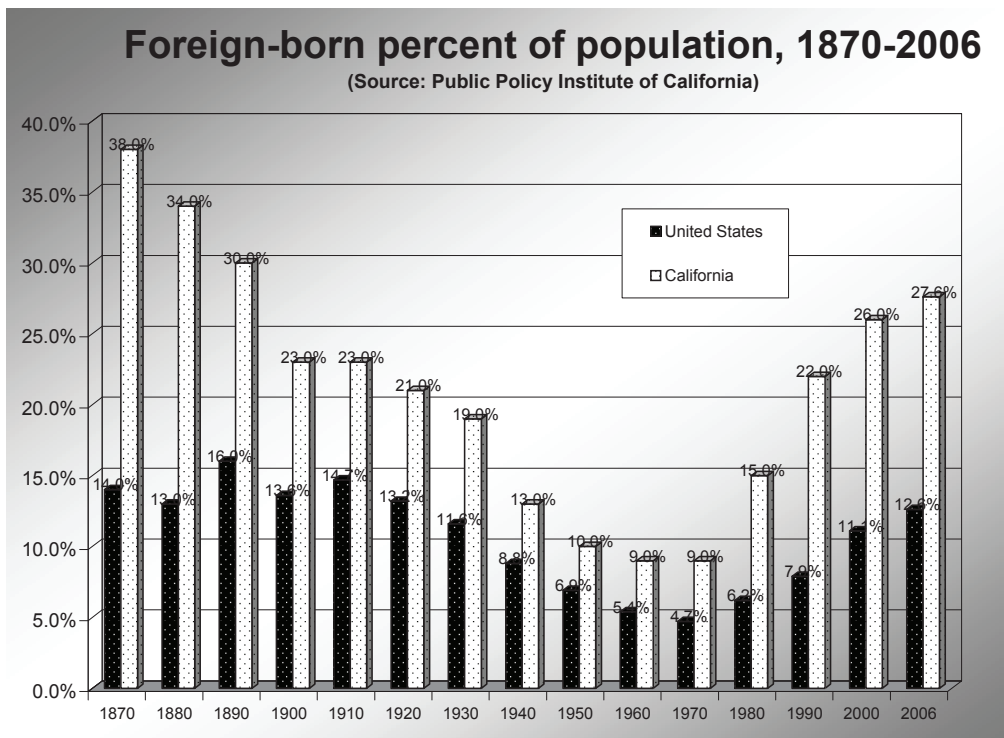
Second, the average California mother is expected to give birth to 2.1 children over her lifetime. This is the so-called “replacement” fertility rate which, if sustained over time, will result in a stable population. The devil is in the details: established residents and immigrants from non-Hispanic groups —Asians, Blacks, Whites, American

Indians, and Pacific Islanders—are all reproducing at below replacement rates. Hispanic mothers, by contrast, are on course to have 3.25 children over their reproductive lifetimes.

Implication: even if immigration were to suddenly stop, Hispanics will represent an ever larger share of California’s population.

The Immigration Deficit

So how does immigration affect California’s budget? There has been amazingly little discussion of this question. Politicians won’t go there lest they offend the fastest-growing segment of their constituencies. Their denial even extends to illegal



Exactly how much of state population growth is due to immigration is a matter of some dispute. The Public Policy Institute of California reports: “Immigration has accounted for 40 percent of the state’s population growth since 2000, with the rest of the state’s growth due to natural increase (more births than deaths).” (http://www.ppic.org/content/pubs/jtf/JTF_ImmigrantsJTF.pdf)

If “natural increase” was the major reason for California’s population growth, then birth control and other family planning programs would be required to reduce growth and the resulting fiscal pressures. In fact, “natural increase” is a euphemism for births to foreign-born women. The phras-

aliens—who (presumably) do not vote. This, for example, from Governor Schwarzenegger: “I can guarantee you, I have been now four years in office in Sacramento, I don’t think that illegal immigration has created the mess that we are in.” <http://www.capoliticalnews.com/s/spip.php?article588>

Perhaps the best study is the one commissioned by the distinguished Democrat Barbara Jordan when she chaired the congressionally mandated U.S. Commission on Immigration Reform in the 1990s. The report estimated the dollar value of state services received by immigrant and native households in California, including Medi-Cal, cash welfare, state aid to K-12 and higher education, state police, corrections, infrastructure, government administration, transportation subsidies, and property tax relief.

Taxes and fees paid were also estimated. The gap between services received and taxes paid represents the “fiscal balance” attributable to each household type.

The findings confirm what many of us suspected:

trast, the average immigrant household is responsible for a deficit of \$2,632. (All dollar amounts are in 1996 dollars. Multiply by 1.35 to convert to 2009 dollars.)

Not all immigrant groups are culpable. Households from Europe and Canada pay an average of \$761 more tax than they receive in state services. At the other extreme are household headed by Latin-Americans, who receive an average of \$3,648 more than they pay in state taxes.

The Jordan study summarizes the reasons for the native/immigrant divide, commenting on differences among immigrant groups:

Comparing services received and revenues paid across native and immigrant households reveals that immigrant-headed households are larger consumers of K-12 education (due to relatively larger family size) and receive more state transfers to households (due to relatively lower incomes). Native and immigrant households pay nearly the same in local taxes, but the richer native households

California State Expenditures, Revenues, and Fiscal Balance for Native and Immigrant Households (1996 dollars per household)

Expenditures	Natives	All Immigrants	Europe/Canada	Asia	Latin America	Other
K-12 education	\$1,212	\$2,496	\$687	\$2,294	\$2,981	\$2,465
Transfer payments (a)	594	1,474	698	1,758	1,581	903
All other (b)	704	1,003	686	1,140	882	1,086
Total	\$2,510	\$4,973	\$2,071	\$5,192	\$5,444	\$4,454
Revenues						
Income tax	\$1,964	\$1,070	\$1,549	\$1,635	\$620	\$1,806
Sales tax	727	570	662	696	473	736
All other	714	701	620	749	703	657
Total	\$3,405	\$2,341	\$2,831	\$3,080	\$1,796	\$3,199
Fiscal deficit/surplus	\$895	-\$2,632	\$761	-\$2,112	-\$3,648	-\$1,255

Source: National Research Council, *The New Americans*, 1997. Table 6.3, page 281.

a. Includes the state’s share of Medi-Cal, welfare, SSI, and other transfers.

b. Mainly higher education, municipal assistance, and property tax relief.

As seen in the table, the average native household generates a fiscal surplus, paying \$895 more in state taxes than it receives in state services. By con-

pay more in state income and sales taxes. Within immigrant groups, families from Europe/Canada are actually net fiscal

contributors, even more so than natives, and households from Asia, Latin America, and other (Africa and Oceania) receive net transfers from California's state and local treasuries.

As in New Jersey, the immigrant group making the biggest contribution to this net fiscal burden on native households in California is families from Latin America.

The Immigrant Deficit, 2009

As of this writing California state lawmakers are wrestling with a deficit estimated at \$21.3 billion. How much of this amount is the result of immigration? A conservative estimate can be had by updating the Jordan Commission figures.

After adjusting for inflation since 1996, we find that the average immigrant household generates a state deficit of \$3,553. There are about 10 million immigrants, and about 2.5 million immigrant households, in the state. Multiplying the per household deficit times the number of immigrant households gives us \$8.9 billion. ($\$3,553 \times 2.5$ million).

Bottom line: California's immigrants are responsible for approximately 42 percent of the state deficit. They account for 27 percent of state population.

Illegal Aliens

Once upon a time political correctness did not prevent Californians from discussing the fiscal burden imposed by illegal aliens. In the early 1990s California faced a sinking economy not unlike today's. Social welfare caseloads exploded, state revenue declined by more than 25 percent, and the

state's budget deficit was an unprecedented one-third of total general fund spending.

Caseloads continued rising even after the recession ended, a trend many officials blamed on illegal immigrants. In 1993 California Gov. Pete Wilson sued the federal government for the costs of state services to illegals—widely estimated at \$2 billion (\$2.9 billion in 2009 dollars)—arguing that Washington mandated the provision of such services while failing to prevent the illegal influx. Five other magnet states—Arizona, Florida, New York, New Jersey, and Texas—joined the suit.

The issue propelled the drafting of Proposition 187, a state initiative denying certain services to illegal aliens. A firestorm ensued. Besides racism and anti-Latino bias, immigrant groups charged the Wilson administration with grossly exaggerating the net cost of illegal aliens on the state's budget.

Prop 187 passed by a wide margin. Yet the charges of demonizing illegal aliens for political gain grew more intense.

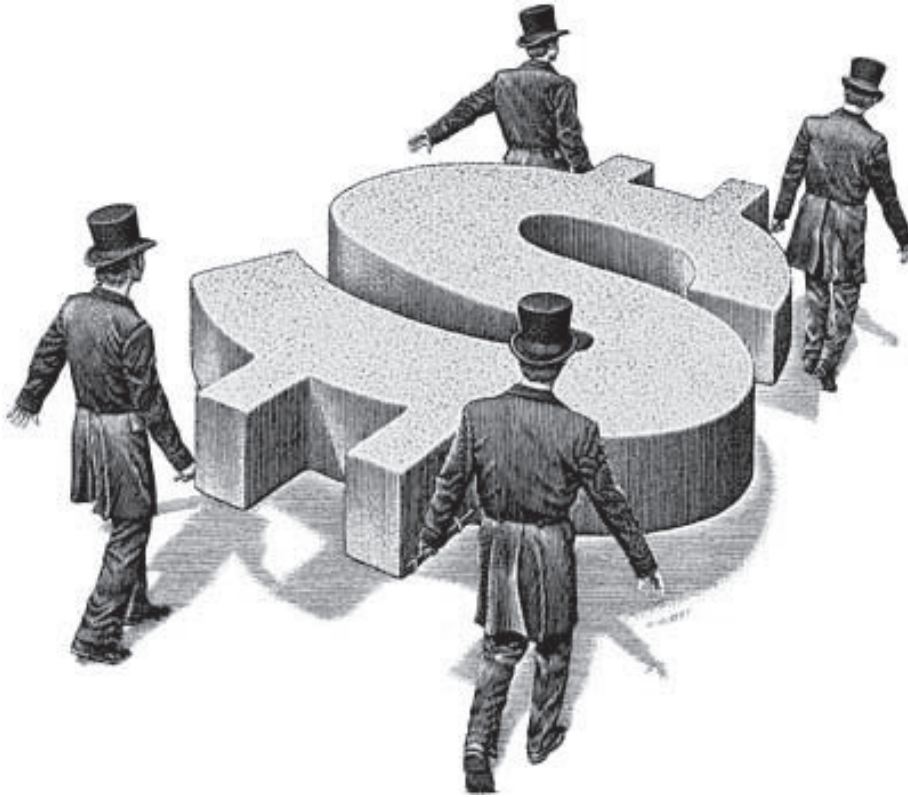
The Governor countered with his own fiscal impact study. To avoid the obvious conflict of interest, Wilson's report merely summarized findings of independent, non-governmental research groups that had already completed studies of the illegal alien question in California and other states.

The 1994 study found that the 1.7 million illegal aliens then residing in California and their U.S.-born children:

- Received \$4.3 billion in state services
- Paid \$739 million in state taxes
- Received about \$3.6 billion more than they paid in taxes.

Even after adjusting these figures for inflation and population growth they will vastly understate the current crisis. Illegal aliens have far easier access to state services today than in 1994. Back then, for example, Medical benefits were restricted to individuals who could certify their legal status. Today the health program is often made available to individuals who merely "self-declare" themselves to be legal. Keep this in mind when you read articles (<http://maillists.uci.edu/mailman/public/calaaem/2006-July/000651.html>) claiming

that Medi-Cal spending for undocumented aliens is increasing more slowly than total Medi-Cal spending, Medi-Cal covers well-baby maternity care, delivery expenses, and long-term care costs for children born to illegal immigrants. A



California study put the number of these anchor baby deliveries at 74,987 in 1994, at a cost of \$215 million. At that time those births constituted 36 percent of all Medi-Cal births. Today they account for more than 43 percent of all Medi-Cal funded deliveries. (<http://archive.newsmx.com/archives/articles/2005/12/26/170334.shtml>)

K-12 education is the largest state expenditure, accounting for 40 percent of the budget. Enrollments have increased dramatically since 1994, swelled primarily by Hispanic immigrants and their U.S.-born children. Consider this: between 1994 and 2005 California K-12 enrollment grew by 1,054,806; Hispanic student enrollment rose by 1,009,489, accounting for 96 percent of the total increase. White enrollment *declined* by 246,220 students over the same period. (http://www.vdare.com/thom/060914_schools.htm)

com/thom/060914_schools.htm)

California's illegal immigrants are also poorer now, relative to the state's natives, than they were in 1994. Consequently they pay less tax per dollar of state services. Today's illegal immigrant is estimated to receive about ten dollars in state services for every dollar paid in state taxes, roughly twice the disparity found in 1994. (http://www.thesocialcontract.com/artman2/publish/tsc_17_4/tsc_17_4_romero.shtml)

California Is Our Canary

California still has the nation's largest immigrant population. But its lead is shrinking: In 1994 32 percent of the nation's foreign-born lived in California; today about 26 percent do. Only 17 percent of immigrants arriving in the U.S. between 2005 to 2006 settled in California.

This dispersion is driven, in part, by employment opportunities. The historic role

immigrants played in California agriculture has yielded to jobs in landscaping, animal slaughter, apparel manufacturing, food services, leisure and hospitality, and construction. These industries are spread throughout the country.

Unfortunately, the same social pathologies that attend the foreign-born in California travel to other U.S. destinations. In every instance immigrants are, on average, poorer than natives, more dependent on public largesse, more likely to require remedial education, less likely to finish high school, and more likely to evade taxation and to be incarcerated.

Throughout the nation native-born citizens are digging ever deeper into their pockets to subsidize public services for immigrants.

How long before we become a nation of 50 Californias? ■