

Racing Backwards

The Fiscal Impact of Illegal Immigration in California, Revisited

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Highlights

Illegal immigrants in California have increased in number by at least 50 percent, and possibly as much as 200 percent, since 1994. Because the average immigrant has few years of schooling, their incomes are low. Consequently they are eligible for many (federally mandated) state government services, but pay little in taxes. Specifically, the average illegal immigrant receives eight to twelve dollars in services for every dollar they pay in taxes, roughly twice the disparity found in 1994.

In the aggregate, illegal immigrants impose a “tax” on legal California residents in the tens of billions of dollars. Their costs, net of taxes, consume about 20 percent of the entire state budget, crowding out vital services or lower taxes for legal residents.

Introduction

Illegal immigration, which dominated Californians’ attention a dozen years ago and greatly influenced the 1994 governor’s race, is again prominent in the headlines. This time, concern has spread beyond California to other states (particularly Arizona), and ultimately to Washington, D.C. For the first time in almost two decades, serious immigration reform proposals are getting attention in Congress—various guest worker bills have been introduced, such as the one co-sponsored by Senators Kennedy of Massachusetts and McCain of Arizona. And with a former Texas

governor in the White House, immigration has been a priority issue for the Administration as well.

Debates about illegal immigration are usually polarized and simplistic, divided between advocates who repeat the self-evident mantra that we are “a nation of immigrants,” and opponents who fear that immigrants are changing society in threatening ways. Advocates regularly charge opponents with racism, or worse—and occasionally they are right.

The Challenge of U.S. Immigration in a Postindustrial Twenty-First Century Economy

The facts are more complicated. As George Borjas has convincingly demonstrated, immigrants, who have contributed so much dynamism to the American economy and society for over a century, increasingly are poorly educated, with little proficiency in English, and often no desire to learn.^[1] Immigrants are 2.6 times more likely than natives to have dropped out of high school (32.8 percent vs. 12.5 percent of each group.)^[2] Increasingly they are content to remain in immigrant ghettos, isolated by choice from the mainstream economy.^[3]

Although exceptional immigrants pull themselves out of poverty to achieve the American middle class dream, today most who succeed had achieved high levels of education before they arrived. The average illegal immigrant from Mexico arrives with six years of schooling; non-Mexicans have ten years.^[4] Because a growing proportion have low skills, they create a labor surplus at the low end of the wage ladder, suppressing wages for other low-skilled workers (e.g., teenagers and some undereducated minorities). This has probably contributed to the slow pace of wage growth for the past generation.^[5]

Although past waves of immigrants also often had limited education, America’s economy had

more opportunities on the lower rungs of the ladder. The postindustrial economy has concentrated returns to those with higher-level skills: for example, over the past thirty years incomes have risen only for workers with college educations or better. While immigrants' progeny did eventually close the gap with native workers' earnings, Borjas reports that it takes several generations, at best.^[6] While most immigrants have started behind natives economically, in recent years the average immigrant failed to close the wage gap, and in fact fell further behind over time.^[7]

All of the above applies to all immigrants, but illegal immigrants most particularly, because they evade the selection screens undertaken by legal immigrants. They therefore are even less educated, and poorer, than legal immigrants.

Note that, notwithstanding the debate's often heated rhetoric, not a word in the previous paragraphs pertained to race or ethnicity. About 80 percent of illegal immigrants were born in Latin America (with by far the largest share from Mexico), crossing the Mexican or Canadian borders.^[8] The remainder come from a wide range of countries, on every continent. While many of the others also cross the border or are smuggled in on ships, most arrive legally on temporary visas (e.g. tourist or student visas), then fail to return home by the visa deadline.

Why Illegal Immigration Should be Opposed—Even by Free-Marketeters

Analysts with a free-market orientation (including the author) are bound to be ambivalent about illegal immigration. We generally believe that the market will allocate resources (e.g., capital and labor) optimally, to produce the greatest prosperity possible. Therefore, we believe that government should constrain the free flow of those resources as little as possible, including across borders. But in practical terms, there are limits as to the speed with which societies can adjust to abrupt changes in resource flows. This was demonstrated by the severe economic disruptions caused when foreign capital rushed out of Asia in the 1997–98 currency devaluations. And it is being demonstrated by

Europe's and America's growing backlash against high levels of immigration today.

Regardless of one's philosophical attitude about immigration, each nation's policy is enshrined in law. Whatever the need and motivation of illegal immigrants, they violate that law, and thereby undermine support for policies that are anything other than extremely restrictionist. Many residents, including Latinos, who may support liberal *legal* immigration, still are strongly opposed to *illegal* immigration.

In addition, for those concerned about population growth in California, as noted elsewhere in this volume, virtually all growth is the result of immigration—either directly, or indirectly through the higher birth rates of many immigrants (versus natives). Without immigration, California—and the U.S. generally—would in the future experience flat or declining populations, because as we have become richer native birth rates have fallen to or below replacement rates.^[9] In some respects many claim this growth is positive in that it avoids the consequences of an aging population (increasing retirement liabilities, and growing dependency ratios). But also at issue is the *speed* of the growth, and—especially—the mismatch between the new residents' low education and the needs of the twenty-first century economy.

Impacts on Taxpayers

Beyond illegal immigrants' impacts on the economy and broader society, they have a very direct and deleterious effect on government finances. Federal court decisions have established that state and local governments are obligated to provide most of the same services to illegal immigrants as legal residents. Immigrants utilize poverty-oriented programs in much higher proportions than do natives, because (as noted) immigrants are substantially less educated on average, and therefore poorer. This is even more true for illegal immigrants.^[10] By contrast, immigrants pay proportionately less in taxes, because most states (and the federal government) have a progressive tax structure (i.e., taxpayers pay an increasing rate as their incomes rise).

As a result, illegal immigrants draw resources

away from needed programs for legal residents, and suppress economic growth because of the need to inflate taxes to cover the costs of their mandated services.

The Situation in 1994

In 1991–94 California experienced its worst recession since the Great Depression. State government revenues declined by over 25 percent. At the same time, many expenditure programs' case-loads rose dramatically, leading to a deficit of fully one-third of the general fund budget. The case-load growth remained high even after the recession ended. State officials determined that a substantial cause of the increase in expenditures was from illegal immigrants.

In Gov. Pete Wilson's view and that of several other border governors, the substantial hole in the state budget stemming from illegal immigrants was caused by a jurisdictional irony: border state governments (and their local jurisdictions) were obliged under federal mandate to provide services to illegal immigrants who were only residents because of the federal government's failure to prevent them from residing here. (State governments are not permitted to restrict immigration, across either state or national borders.)

In 1993 Wilson sued in federal court, arguing that the federal government was responsible for reimbursing California for the cost of state services to illegal immigrants—then estimated in excess of \$2 billion (\$3.62 billion in 2005 dollars). Five other highly impacted states (Arizona, Florida, New York, New Jersey, and Texas) joined the suit. The cause was picked up by the drafters of Proposition 187, a 1994 state initiative that made it illegal under state law to pay for certain services to illegal residents. Prop. 187 became the center of

a storm of intense controversy, ultimately passing handily in Nov. 1994.

Besides calling Wilson and Prop. 187 proponents racist and anti-Latino, immigrant advocates claimed that Wilson grossly exaggerated illegal immigrants' net cost to state taxpayers. They implied that illegal immigrants' taxes more than compensated for the cost of services they received. To address this issue, in the Fall of 1994 the author led a government study of illegal immigrants' net state fiscal impact.

The 1994 Study⁽¹¹⁾

To repeat, the 1994 study did not conduct primary research. Rather, it tabulated and analyzed the findings from each major existing study of illegal immigrants' fiscal impact in California and elsewhere. Besides achieving this synthesis, the study's greatest contribution was that it treated uncertainty explicitly. Most every component of this issue includes substantial quantitative uncertainty; yet surprisingly, many of the source studies eschewed reporting ranges for their findings in favor of point estimates. The 1994 study, by contrast, specifically reported high, median, and low estimates for most important elements.

The 1994 study found that the 1.7 million illegal immigrants then estimated to reside in California consumed \$3.4 billion [*\$4.5 billion in 2005 dollars*] in state services, \$2.4 billion of which was mandated by federal law or the courts. In addition, another \$900 million in state services was consumed by children of illegal immigrants born in the U.S.⁽¹²⁾ This represented nearly 10 percent of state general fund spending (on about 5 percent of the state's population).

As other chapters in this volume attest, many elements needed for these estimates were and are highly uncertain. After all, illegal immigrants have



California Gov. Pete Wilson

good reason to stay under the authorities' radar. As a result, the 1994 study was what academics term a "metastudy," or study of studies. For each important parameter needed for the analysis (e.g., the size of the illegal immigrant population, or tax rates for each type of tax they pay), the 1994 study tabulated a range of estimates from other studies, and reported a high, median, and low value for each.

Regardless of the uncertainties, the 1994 study found a substantial negative net fiscal impact. Illegal immigrants were estimated to pay between \$465 million [*\$609 million*] (low estimate) and \$1.07 billion [*\$1.4 billion*] (high estimate) in state taxes, versus \$4.3 billion [*\$5.6 billion*] in program costs (including citizen children). Even using the study authors' upper bound estimate of potential taxes paid—which implied that illegal immigrants paid taxes at the same rate as the average Californian, a highly unlikely condition—illegal immigrants consumed roughly \$5 in services for every dollar they paid in taxes.

Notwithstanding the claims of immigrant advocates, this should come as no surprise. Illegal immigrants' household incomes are low,^[13] which makes them eligible for a wide range of antipoverty government programs. A highly progressive tax structure (California has one of the most progressive state income taxes in the nation) means that low-income households pay the lowest tax rates. Furthermore, many illegal immigrants' employers do not comply with all tax requirements. The 1994 study found that, contrary to the advocates' glib assertions, the average illegal immigrant household would need

to earn over \$100,000 per year (*\$131,000*) to cover the cost of their state services. This amount was in the top 5 percent of all state households, which was manifestly impossible. These immigrants alone were estimated to be 5 percent of the state population. They would have to monopolize the top of the income distribution, which they clearly did not.

Although the study became caught in the crossfire between pro- and anti-immigrant advocates, its findings were validated in two independent reports by the Urban Institute in 1994^[14] and the National Research Council in 1998.^[15] In 1995 the Rand Corporation surveyed this study and each of the other major studies of fiscal impact and drew some methodological lessons,^[16] which have been incorporated into this chapter.

(A more detailed summary of the 1994 study is reprinted in the appendix to this chapter.)

What's Changed Since 1994?

Political pressure from border states in the mid-1990s compelled the U.S. Border Patrol (now part of the Department of Homeland Security) to greatly increase personnel in the most heavily trafficked urban border corridors. Expectations were that if migrants had only the lightly patrolled inhospitable desert areas as crossing options, dangerous conditions would deter crossings. In fact, the shift seemed to simply raise the price that migrants paid—in personal risk, or to *coyote* smugglers—to evade capture.

The numbers of new illegal immigrants, which had already increased from 140,000 per year in the



1980s to 450,000 in the early 1990s, continued to climb. According to the Pew Hispanic Center, illegal immigration accelerated in the late 1990s and stayed strong despite the U.S. 2001 recession and post-9/11 security measures.^[17] In the authors' view, migrant flows were driven more by economic conditions in Mexico (e.g., the 1995 peso crisis and economic adjustments following the NAFTA agreement) than by U.S. conditions.

These immigrants' destinations within the U.S. became increasingly diversified. At the time of the 1994 study 86 percent of illegal immigrants resided in seven states (California, New York, Texas, Florida, Illinois, New Jersey, and Arizona), including 43 percent in California alone.^[18] By the early part of this decade, only 70 percent did, with California's share declining to 24 percent.^[19] Illegal immigrants have also diversified beyond their historic role in agriculture, occupying jobs in the landscaping, animal slaughter and processing, building services, dry cleaning, apparel manufacturing, travel accommodation, restaurant, construction, and grocery industries in numbers more than double their share of the overall population (4.3 percent to 8.5 percent).^[20] Many of these industries are spread across the country, with concentrations outside the Southwest. For example, North Carolina is now among the states with a concentration of illegal immigrants, and Washington, Colorado, Georgia, Virginia, Maryland, and Massachusetts are not far behind.^[21]

The increased flow and dispersion of illegal immigrants has taken the issue national. In 2004 Arizona voters approved Prop. 200, analogous to California's Prop. 187. In the Spring of 2005 a group of private citizens (the Minutemen) took up positions, uninvited, to supplement the Border Patrol. While President Bush criticized the Minutemen, California Gov. Schwarzenegger endorsed them. These developments generated great national media attention and built momentum behind Pres. Bush's guest worker proposal and a number of Congressional bills.

As illegal immigrants have become increasingly pervasive (at least one out of 25 U.S. residents, and one of 12 in California), it has become obvious that

the sanctions specified in the last federal immigration "reform" (the Immigration Reform and Control Act of 1986) are insufficient. Few employers have been subjected to significant fines for hiring illegal immigrants, as the law specifies. The most celebrated case, against Wal-Mart for employing illegals through a cleaning contractor, was settled for \$11 million, an amount that was minuscule in comparison to the firm's \$10.3 billion in annual profits.^[22] The INS' investment in workforce enforcement, which was never high, has been cut back further since Sept. 11, 2001, declining from 9 percent of man-hours to 4 percent from 1999 to 2003.^[23] This decline pre-dates 9/11: between 1999 and 2001, worksite enforcement man-hours dropped 50 percent, and arrests 75 percent.

Finally, security concerns have been enormously heightened following the 9/11 terrorist attacks, since many of the hijackers either entered or remained in the U.S. illegally. This has helped to convert the issue from one affecting primarily the states where illegals reside, to one of national concern.

Illegal Immigrants' California Fiscal Impact in 2005

This section updates the 1994 study based on research reported over the past ten years. Reports of particular value include aforementioned works by the Urban Institute, the NRC, and the Pew Hispanic Center. (Pre-1994 research was captured in the original study.) In addition, Francisco L. Rivera-Batiz produced a valuable review of the Legalized Population Study (surveys of post-1986 amnestied former illegal immigrants) in 2001.^[24] As before, the author has tabulated and synthesized their findings to produce an integrated estimate. And as before, this chapter accounts for the unavoidable uncertainties more explicitly than do many other analysts.

Unlike the original study, which was written to support attempts to seek greater federal relief for federally mandated state expenses, this article focuses exclusively on state costs and revenues. However, it is not the case, as some have argued, that the federal government receives a surplus from

illegal immigrants that compensates for state and local deficits. *Each recent study has concluded that all levels of government experience a negative net fiscal impact (i.e., costs higher than revenues), with the impact largest at the federal level (\$4,700 to the federal government per immigrant household, versus \$4,119 for the state of California and \$1,417 for local governments.^[25]*

The findings below follow the same format as the 1994 study, which is summarized in an appendix to this article.

Preliminaries

As already noted, any parameter related to illegal immigrants is fraught with uncertainty.

them, the same approach has been used: tabulating low, median, and high values from different sources. All dollar amounts are shown in 2005 dollars.

Costs to Provide Services to Illegals^[30]

Because immigrants on average generally have significantly lower incomes than natives (according to the NRC, about half as much^[31]), they participate much more frequently in government programs directed to those with low incomes. For example, foreign-born households receive Medi-Cal (health care for the indigent) at more than twice the rate of native-born households (30.7 percent vs. 14.3 percent)^[32] Other programs that are disproportionately utilized are SSI, subsidized

California Illegal Immigrant Population, Alternative Estimates Table 1.

Low: 2,472,000 (Pew—24 percent of 10.3 million U.S. illegal population)

Median: 2,800,000 (FAIR)^[28]

High: 4,800,000 (Bear Stearns—24 percent of 20 million U.S. illegal population)^[29]

The size of the population of illegal immigrants is subject to dispute, with credible estimates varying by more than a factor of two. A recent entry into the debate has been work by Bear Stearns,^[26] which makes a persuasive case that the consensus estimate of 10 to 12 million within the U.S. may be a gross underestimate.^[27] *The authors use a variety of imaginative indicators to conclude that 20 million may be a more realistic estimate—approaching 10 percent of the U.S. population.* This suggests that one out of fifteen U.S. residents, and as many as one out of seven California residents, is an illegal immigrant.

The low, median, and high estimates of California's illegal population that we will use are shown in Table 1 (above).

These compare to 1.7 million estimated in the original 1994 study.

For each component of costs (program benefits) received by illegal immigrants, and taxes paid by

housing, food stamps, and General Assistance. An estimated 25.2 percent of immigrant households utilize subsidized school lunch programs, vs. 5.6 percent of native-born households. The only programs that immigrants utilize significantly less than natives are Social Security and Medicare, presumably because of immigrants' lower median ages.

(Note that because of data limitations these figures compare natives to all immigrants, legal as well as illegal. The disparities would be even more striking for illegal immigrants alone.)

The main costs in the 1994 study, and again today, relate to K–12 education, health care, and criminal justice costs. In each instance only operating costs are included, although the magnitude of the illegal population has required expansions in fixed costs (e.g., facilities) also. Also omitted are some indirect costs, such as the costs of courts and litigation infrastructure in the criminal justice system.

Therefore, the costs shown should be treated as conservative estimates.

Summing up over all state spending programs reveals the fol-

lowing range of estimates for state spending per illegal immigrant (i.e., per capita) in Table 2 (above).

By comparison, average 2003 state expenditures per person for the total California population (all programs) was \$2,709. Illegal immigrants therefore receive between 1.6 and 3.3 times the average for all residents, legal and illegal. In 1994 this ratio was 1.13.

Revenues Collected from Illegals

For several reasons, the rate at which illegal immigrants pay taxes is relatively low. First, California's progressive income tax structure reserves the lowest rates for the lowest incomes. Second, many illegal employees and employers evade at least some taxes.

**State Expenditure per Illegal Immigrant
Alternative Estimates
Table 2**

| | 2005 | 1994 study (2005 dollars) |
|----------------|--|---------------------------|
| Low: | \$4,227 (Anderson)^[33] | |
| Median: | \$8,317 (NRC) | \$2,607 (Romero) |
| High: | \$9,018 (NRC) | |

cannot evade all taxes. All illegal immigrants pay sales taxes on taxable purchases; and even renters pay imputed property taxes as part of their rent.

In contrast to our conservative treatment of costs, we adopt a very liberal approach to revenues. The 1994 study estimated illegals' revenues for fourteen different types of taxes, including some (e.g., property taxes) that few pay directly.

**State Revenues per Illegal Immigrant
Alternative Estimates
Table 3**

| | | Implied tax rate ^[35] |
|----------------|---------------------------|---|
| Low: | \$354 (Romero) | 5.9 percent |
| Median: | \$743 (NRC) | 8.0 percent |
| | | (Calif. average is 8.0 percent)^[36] |
| High: | \$1,043 (Anderson) | 7.4 percent |

^[34] The more thorough studies since 1994 (e.g., the NRC and Pew) have been equally inclusive.

The range of per capita taxes paid by illegal immigrants is shown in Table 3 (above).

Implied tax rates are computed by dividing the estimated per capita tax by its counterpart, per capita income (e.g.,

low tax estimate divided by low income estimate, with same for medians and highs.) Corresponding per capita income estimates are shown in Table 4 (left).

Third, a variety of income and sales tax exemptions offer the greatest tax relief to low-income households. However, even the most inventive person

**Income per Illegal Immigrant
Alternative Estimates
Table 4**

(Note that not all sources distinguish legal from illegal immigrants)

| | | |
|----------------|--|--|
| Low: | \$6,003 (NRC) | |
| Median: | \$9,286 (Rivera-Batiz) | Calif. average per capita income, |
| High: | \$12,600 (Passell)^[37] | 2002: \$35,628 (2005 \$)^[38] |

low tax estimate divided by low income estimate, with same for medians and highs.) Corresponding per capita income estimates are shown in Table 4 (left).

Of the three sources, only Passell distinguishes between legal and illegal immigrants. Therefore, this range probably overestimates illegal immigrants' incomes and, by extension, underestimates their implied tax rate. The median estimate of taxes paid (\$743) is probably modestly too high because it is consistent with a tax rate identical to that for the average Californian. It is unlikely that illegal immigrants' tax rates are as high.

Net Fiscal Impact (revenues versus costs)

Subtracting state costs from state revenues yields the estimates of per capita new fiscal impact in Table 5 (right).

In all cases, the average illegal immigrant consumes thousands of dollars more in state taxes than he pays. The ratio of costs to benefits ranges from 8.6 to 11.9—i.e., illegals receive \$8.60 to \$11.90 in state expenditures per dollar they pay in state taxes. By way of calibration, the NRC found that all foreign-born households—legal and illegal, recently arrived or not—had a negative net fiscal impact of \$4,119 in 2005 dollars⁽³⁹⁾. This again is almost certainly an underestimate because of illegal immigrants' lower incomes. A reasonable guess as to the actual impact would be between -\$7,000 and -\$8,000 per illegal immigrant.

Conclusions

Multiplying the per capita fiscal impact estimates above by our range of population estimates yields the following aggregate fiscal impacts, all highly negative.

| | |
|----------------|-------------------------|
| Low: | \$9.574 billion |
| Median: | \$21.207 billion |
| High: | \$38.280 billion |

These compare to \$3.6 billion in the 1994 study. California's total state budget is was \$ 97.2 billion in 2003–04. So the "illegal immigrant tax" amounted to between 9.9 percent and 39 percent of the total budget. The author believes roughly the median estimate of 21.8 percent is probably closest to the truth.

There is unavoidable uncertainty about estimates of all things pertaining to an illegally present population which has left room for farfetched claims by advocates on both sides. But without a

**Net State Fiscal Impact per California Illegal Immigrant
Alternative Estimates
Table 5**

(Revenues per person minus costs per person)

| | |
|----------------|-----------------|
| Low: | \$3,873 |
| Median: | \$ 7,574 |
| High: | \$ 7,975 |

doubt, illegal immigrants impose a multi-billion dollar burden on California taxpayers. The dramatic increase compared to 1994 is a result of continued high levels of

immigration—the current population of illegal immigrants is two to three times that of 1994—and the continued retrogression of immigrants' relative economic status. In 1994 the illegal immigrant tax consumed 7 percent of state taxpayers' funds; today it consumes three times as much of a budget that has more than doubled in that time.

If there were one very small piece of good news, it is that California's national share of this tax has declined (even while increasing drastically in absolute terms). The dispersion of illegal immigrants to other states which had not traditionally experienced them and their fiscal impact, increases the prospects for meaningful national reform.

In the author's opinion, reform will require sanctions to assure that illegal aliens are not rewarded in the citizenship process over those who "followed the rules;" and second, any guest worker program will need incentives like the withholding earnings to induce the workers to return to their home countries.

A third element needed is serious enforcement

of existing employer sanction laws. At present a minuscule number of employers who have hired illegal immigrants have been prosecuted or fined. Part of the reason is that necessary documents can be easily obtained fraudulently. This allows employers to feign ignorance. The lure of U.S. jobs—for which illegal immigrants are legally ineligible, but only theoretically—must be curtailed. It will not eliminate incentives to emigrate, but it will greatly reduce them.

The final “reform” possibility is radical, but the magnitude of the problem mandates that it be explored. A number of industries, especially construction, hospitality, and agriculture, depend on below-market labor costs. This is the basis

for the argument that “illegal immigrants take jobs Americans don’t want”—because the wages are so low. Reducing illegal immigration would increase those costs, and therefore prices. Perhaps these industries should be encouraged to raise wages for new employees. This would attract more legal applicants, whose English skills and legal status would make them attractive hires. In this way, the market would reduce the opportunities for illegal immigrants, and discourage immigration.

The dirty secret of too many of our industries is that they have been able to avoid modernizing—finding ways to be more productive, usually by substituting machines for labor—because they have been able to exploit cheap labor. In the short run, this keeps costs, and therefore prices, low. In the long

run, their failure to update will cause them to lose the productivity race to foreign competitors. So turning a blind eye to illegal immigration is undermining the competitiveness of many American industries, and will cost Americans jobs in the future. ■

ENDNOTES

[1] For example, Steven Camarota of the Center for Immigration Studies (CIS) has determined that illegal



Migrant workers in California are recruited to do “jobs that Americans don’t want” undercutting the wages of Americans.

immigrant heads of households are four times as likely to have failed to complete high school than native household heads (65 percent vs. 16 percent of each type.) See Camarota, “The High Cost of Cheap Labor,” CIS, August 2004.

[2] Congressional Budget Office, “A Description of the Immigrant Population,” Nov. 2004, Table 12, p. 18. CBO found that in 2002 immigrant house-

holds led by non-citizens (CBO’s closest proxy to illegal immigrants) on average had incomes that were about 60 percent of native households’ incomes. CBO, Tables 16 and 17, pp. 22–23.

[3] Borjas’ most recent book is *Heaven’s Door*, Princeton University Press, 1999. This very simplified summary also draws from Borjas’ *Friends or Strangers?* Basic Books, 1990.

[4] Rivera-Batiz, “Illegal Immigrants in the U.S. Economy,” in Slobodan Djajic, *International Migration: Trends, Policies, and Economic Impact*, Routledge, 2001, Table 9.5, p. 187.

[5] Average incomes of the middle fifth of U.S. households rose by 9.4 percent (after inflation) from 1979 to 2001 (to \$55,188 in 2005 dollars), while the poorest fifth’s incomes rose by only 0.7 percent (to \$15,552). Congressional Budget Office, “Effective Tax Rates: Comparing Annual

and Multiyear Measures,” January 2005.

[6] Specifically, Borjas reports that each generation on average had closed about half of the gap with native workers’ earnings. So at least three or four generations are needed before the offspring of immigrants and natives earn essentially the same amounts. But recent immigrant cohorts’ wage gaps compared to natives have grown, not shrunk, in the years following arrival.

[7] Borjas, “Economic Assimilation: Trouble Ahead,” in Jacoby, Tamar, ed, *Beyond the Melting Pot*, Basic Books, 2004.

[8] Jeffrey Passell, *Unauthorized Migrants: Numbers and Characteristics*, Pew Hispanic Center, June 2005.

[9] As is demonstrated elsewhere in this issue, 100 percent of California’s population growth in the past fifteen years has been due, directly or indirectly, to foreign immigration. (Indirect effects stem from higher birth rates among immigrant women—primarily from Latin America—compared to natives.) Domestic migration was substantially negative in the 1990s.

[10] For example, the Legalized Population Survey (LPS) determined that former illegal immigrants legalized under the 1986 IRCA amnesty had 1990 incomes of \$6,218 per person (\$ 9,265 in 2005 dollars), while all immigrants in the 1990 census had incomes of \$ 11,775 (\$17, 545 in 2005 dollars.) Rivera-Batiz, “Illegal Immigrants in the U.S. Economy”, in Slobodan Djajic, *International Migration: Trends, Policies, and Economic Impact*, Routledge, 2001, Table 9.4, p. 185.

[11] All references to the 1994 study pertain to Romero, Chang, and Parker, *Shifting the Cost of a Failed Federal Promise: the Net Fiscal Impact of Illegal Immigrants in California*, California Office of Planning and Research, Sept. 1994.

[12] Romero, Chang, and Parker (hereafter “Romero, et al”), p. viii. Under the U.S. constitution, all persons born in the U.S. are citizens. Thus children of illegal immigrants were referred to in the study as “citizen children.”

[13] In Romero et al., the median estimate for illegal immigrants’ income per person was \$5,532 (\$6,854 in 2005 \$), one fourth that of the average California resident. See Table 7a, p. 12.

[14] Clark, Rebecca, and Passell, Jeffrey, *Fiscal Impacts of Undocumented Aliens; Selected Estimates for Seven States*, Urban Institute, 1994.

[15] Clune, Michael, *The Fiscal Impacts of Immigrants: A California Case Study*, National Research Council, 1998.

[16] Vernez, George, and McCarthy, Kevin, *The Costs of Immigration to Taxpayers: Analytical and Policy Issues*,

Rand Corporation MR 705, 1995

[17] Passell, Jeffrey, “Background Briefing Prepared for the Task Force on Immigration and America’s Future,” Pew Hispanic Center, June 2005. Passell estimates that illegal immigration increased by fivefold between the 1980s and mid-1990s, and began to exceed legal immigration in the late 1990s.

[18] Romero, et al, p. 1.

[19] Passell, , p. 11.

[20] Passell, p. 29.

[21] Passell, pp. 11-13.

[22] The settlement is described in Greenhouse, Steven, “Wal-Mart to Pay U.S. \$11 Million in Lawsuit on Illegal Workers,” *New York Times*, March 19, 2005. Earnings are from Wal-Mart 2004 year-end earnings press release, Feb. 17, 2005.

[23] General Accounting Office, “Immigration Enforcement,” statement by GAO director of Homeland security and Justice before the House Judiciary subcommittee on Immigration and Border Security, June 21, 2005, p. 1.

[24] Rivera-Batiz, “Illegal Immigrants in the U.S. Economy”, in Slobodan Djajic, *International Migration: trends, Policies, and Economic Impact*, Routledge, 2001.

[25] Clune, p. 164.

[26] Justich, Robert, and Ng, Betty, “The Underground Labor Force is Rising to the Surface,” Bear Stearns Asset Management, January 3, 2005.

[27] For example, Justich and Ng report that “the 1990 census...recorded that only 9,200 Brazilians in New York City, while the local Brazilian consulate estimated 100,000 Brazilians at that time... The Brazilian foreign office placed the number at 230,000...Comparisons of the Boston archdiocese and Brazilian consulate records with U.S. census records show a startling 10 to 1 difference.”

[28] Martin, Jack, and Mehlman, Ira, “The Costs of Illegal Immigrants to Californians,” Federation for American Immigration Reform (FAIR), November 2004

[29] Bear Stearns does not estimate state populations of illegal immigrants, only the U.S. population. The high estimate applies Pew’s estimate of California’s share of the national illegal immigrant population to Bear Stearns’ national estimate.

[30] All dollar amounts from various studies’ different base years have been adjusted for inflation to 2005 dollars.

[31] In 1995 immigrants’ per capita incomes were \$12,114, while natives were \$22,241. Note these figures are for all immigrants, not only illegals, whose incomes can be expected to be lower still. Clune, p. 134.

[32] Ibid, p. 142.

[33] The Anderson Report, “The Costs of Immigration to American Taxpayers,” December 31, 2001. This estimate pertains to costs in Arizona, and would probably be increased modestly for California’s more generous benefit structure; but it is being used in unadjusted form to be conservative.

[34] They are (1) Federal taxes: payroll, income, gas, excise, unemployment; (2) state taxes: income, sales, vehicle, excise, gas, and lottery; (3) local taxes: property, and sales. However, in this chapter only state revenues

and expenditures are computed.

[35] California population and tax data from Department of Finance California Statistical Abstract, 2004.

[36] Ibid.

[37] Passell, , p. 33. Incomes for all Hispanics—Immigrant and native-born—are about \$2,300 higher. Rubenstein, Edwin, “Hispanic Indicators: A Statistical Review of the Hispanic Experience in the United States,” *The Social Contract*, Summer 2004.

[38] *California Statistical Abstract*, 2004.

[39] Clune, Table 4-8, p. 166.

Appendix

Highlights of the 1994 study (Romero et al.: “Shifting the Cost of a Failed Federal Policy—the Net Fiscal Impact of Illegal Immigrants in California, Sept. 1994). All dollar amounts are in 1994 dollars. Multiply by 1.31 to convert to 2005 dollars.

KEY FINDINGS

◀ *Advocates who suggest that illegal immigrants “pay their own way” through the taxes they pay are wrong. State tax payments by illegal immigrants don’t cover their share of general state services (\$1.0 billion), let alone meet the overwhelming cost of complying with federal mandates (\$2.4 billion).*

◀ *Services to illegal immigrants—in the form of education, health care, incarceration, and other services—will cost California taxpayers ‘at least \$3.4 billion in FY 94–95. Even when an estimate of taxes paid by illegal immigrants is included, the net cost of illegal immigration borne by state taxpayers is at least \$2.7 billion.*

◀ *To generate the taxes needed to pay for the services they receive, each illegal immigrant household would have to earn more than \$100,000 per year. This is 3 times greater than the average household income in California, and would place them in the richest 5 percent of California households.*

◀ *The average illegal immigrant household receives about twice the dollar value of services (\$7,760) as the average legal resident household (\$4,619).*

◀ *The cost of all services to illegal immigrants and their citizen children amounts to an illegal immigration tax of \$4.3 billion for all California taxpayers. This amount would be sufficient to reduce the state’s total income tax burden by about 25 percent.*

◀ *Federally mandated expenditures (\$2.4 billion) on services for illegal immigrants could pay for two years of registration fees for each of the 150,000 students attending the University of California, the 300,000 students in the California State University system, and the 1.5 million students attending California community colleges.*

◀ *Federal taxes paid by illegal immigrants (\$1.3 billion) are nearly twice as large as those paid to the State (\$739 million) and 10 times greater than those paid to local governments (\$139 million).*

◀ *More than 5 percent of California’s population is made up of illegal immigrants. The 1.7 million illegal immigrants living here represent 43 percent of all illegal immigrants in the United States.*

◀ *According to the federal Immigration and Naturalization Service, 125,000 illegal immigrants come to California each year. In the absence of effective border controls and immigration reform, more than 1.0 million additional illegal immigrants will come to California in the next decade.*