WHITE PAPER:

THE PROJECTED ECONOMIC IMPACT OF PROVIDING A PATHWAY TO LEGAL STATUS IN CALIFORNIA,

A COUNTY SPECIFIC ASSESSMENT

PREPARED BY...

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INTRODUCTION

As the policy debate over immigration reform continues in Washington, DC and throughout the nation, there is strong desire from policymakers and citizens to understand the effects of such reforms on the national, state, and local economies. In REMI's earlier analysis *Key Components of Immigration Reform*, we looked at the economic effects on the individual state economies. This subsequent analysis breaks the economic effects of creating a pathway to legal status in California down by ten counties and the rest of the state. The ten counties analyzed were Fresno, Kern, Los Angeles, Orange, Riverside, Sacramento, San Bernardino, San Diego, Santa Clara, and Stanislaus Counties.

This document details the methods used to perform the analysis and develop both the state and county results. It also reports and explains the results and looks at the change in those indicators over time from 2014 to 2020.

Similar to the effects we found nationwide in all states, we estimate that the establishment of a pathway to legal status for undocumented residents currently living in the State of California and the ten targeted counties would have net positive effects on the regional economies as measured by major indicators of growth in gross regional product, creation of jobs, and growth in personal income at the county level.

METHOD

REMI simulated the economic impacts of immigration reform for the state of California using its PI$^+$ model in its recent study, *Key Components of Immigration Reform*. As part of the study, we estimated the potential impacts to the regional economy from providing a pathway to legal status by modifying the changes to wages and productivity.

State-Specific Method

The Pathway to Legal Status applies to individuals who currently reside, and for the most part already work, in the United States. As such, it differs from immigration policy centered on changing the number of new immigrants, or in changing the number of new employment-based visas. By and large, the pathway policy changes the type of work that can be sought and obtained by a previously undocumented worker, without having a significant effect on either the overall size of the labor force or population residing in the United States.

Many undocumented workers are employed in the informal or underground economy, in which economic activities are outside of the bounds of government regulation or taxation. Employment in this sector tends to provide lower compensation (wages and benefits) than in the formal economy.

Applying for legal status is voluntary, although increased enforcement on employers' hiring practices is expected. To estimate the number of undocumented immigrants who will enroll in the pathway, we looked at participation rates in the Immigration Reform and Control Act of 1986. However, estimates of the undocumented immigrant population at the time vary widely from 2 to 8 million. The U.S. Department of Homeland Security cited a report by Michael D. Hoefer estimating the undocumented immigrant population being between 3 and 5 million people in 1986. (Hoefer, 1991) With approximately 3 million people applying for legal residency, we assumed a participation rate of 75 percent.

Compensation is likely to increase with the creation of a pathway to legal status. Following the Immigration Reform and Control Act of 1986, the U.S. Department of Labor tracked 1.6 million undocumented

workers. This survey showed a 15-percent increase in wage rates for undocumented workers legalized under section 245A of the Immigration and Nationality Act during the first five years following legalization. (Smith, 1996)

We attribute the increase in wages following legalization to two causes, which we categorize as compliance and productivity. The first category, compliance, represents an increase in wages, without any productivity gains, that results from employers more closely conforming to labor legislation such as minimum wage and overtime requirements. The second category, labor productivity, represents pay increases that occur in conjunction with increases in labor productivity.

Undocumented workers are limited to less-productive work in marginal positions. This is due to limited employment opportunities, as jobs are only available from employers operating outside of the law. Such employers tend to run smaller operations that require low value-added labor, such as limited childcare or housekeeping needs, or marginally profitable operations, such as those found in small food service and other operations. Workers also may be restricted to positions, such as dishwashing, that employs only part of his or her skill set. Additionally, undocumented workers that obtain legal status may be more willing to invest in their skills, such as learning the English language and developing technical skills that will increase their human capital and productivity.

In general equilibrium economic theory, firms maximize profit and in equilibrium, the real wage is equal to the marginal product of labor so real wage increases imply increases in labor productivity. For the purpose of this study, we assume, however, that a proportion of the real wage increases that occur when undocumented workers enter the pathway to legal status are in fact "deadweight" losses to firms. That is, of the 15-percent increase in real wages over 5 years, there is a 12-percent increase or 2.4-percent increase per annum in labor productivity, and a three-percent increase or 0.6-percent per annum increase in labor costs that are not associated with labor productivity.

Increases in labor productivity are associated with worker-specific effects, such as those noted in the previous paragraph. We allocated the 75 percent of the 11.1 million undocumented immigrants across the states and by industry group. (Passel & Cohn, 2011)

County-Specific Method – California

After calculation of the state results, they are allocated to counties within the state according to the counties' share of statewide undocumented population. REMI adhered to this methodological framework to maintain consistency across studies and provide a defensible basis to disaggregate the data into component parts. The estimates for the counties' share of statewide undocumented individuals are assumed to remain constant throughout the forecast horizon. This is a reasonable assumption, given the lack of significant variability in the data. REMI used estimates published by the Public Policy Institute of California in their study, *Unauthorized Immigrants in California: Estimates for Counties* (Hill and Johnson 2011). In this study, the county-by-county shares were estimated using a weighted least squares regression and incorporating data from the IRS on Individual Taxpayer Identification Number (ITIN). Given the significant correlation between ITIN numbers and independent estimates of statewide undocumented populations, it is reasonable to assume that these filings can provide a method to scale state estimates into local area estimates. For the development of this report, REMI used the most recent county shares available, the distribution for 2008. Table 1 shows the county-by-county share.

Table 1 – County-by-County Shares

County	Share of California's Undocumented Population
Fresno	1.70%
Kern	1.60%
Los Angeles	31.87%
Orange	10.05%
Riverside	5.08%
Sacramento	2.26%
San Bernardino	5.22%
San Diego	6.89%
Santa Clara	6.26%
Stanislaus	1.36%
Rest of the State	27.71%

Source: Authors' calculations from Hill and Johnson 2011

RESULTS

The following table details results for total changes in employment and gross county product (GCP) as a result of the policy change. The results are changes relative to the baseline projection of total employment and GCP in every given year. In effect, these are the total estimated economic impacts attributable to providing a pathway to legal status in the state of California. Employment and real personal income increases as a result of the Pathway to Legal Status policy, as wage gains and corresponding productivity increases add to U.S. economic activity as a whole. In addition, the state benefits from increases in state level activity evidenced by the sharp increases in Gross County Product.

County	Increase in Total Employment		Increase in Gross County Product	
	2014	2020	2014	2020
Los Angeles	9,575	38,840	$815	$3,169
Riverside	1,526	6,191	$130	$505
San Bernardino	1,568	6,360	$134	$519
Orange	3,021	12,254	$257	$1,000
Santa Clara	1,882	7,632	$160	$623
Sacramento	679	2,756	$58	$225
Fresno	512	2,078	$44	$170
Kern	481	1,950	$41	$159
Stanislaus	408	1,654	$35	$135
San Diego	2,070	8,396	$176	$685
Rest of state	8,326	33,773	$709	$2,756
California	30,048	121,884	$2,559	$9,946

GCP data in Millions of Real 2012 Dollars

Real personal income for the state increases significantly to over $6 billion by 2020, when adjusted for inflation. The table below details the distribution of these increases by county.

County	Increase in Real Personal Income (mil 2012 $s)	
	2014	2020
Los Angeles	$1,295	$6,978
Riverside	$206	$1,112
San Bernardino	$212	$1,143
Orange	$409	$2,202
Santa Clara	$255	$1,371
Sacramento	$92	$495
Fresno	$69	$373
Kern	$65	$350
Stanislaus	$55	$297
San Diego	$280	$1,508
Rest of state	$1,126	$6,068
California	$4,065	$21,899

While in absolute terms the results appear to be concentrated in counties with larger metropolitan populations, the overall economic impacts as measured by percentage changes from the baseline exhibit a more balanced distribution. Nonetheless, all counties experience significant increases in every indicator throughout the forecast horizon.

% Change from Baseline Employment in 2014	
Los Angeles	0.17%
Riverside	0.18%
San Bernardino	0.18%
Orange	0.15%
Santa Clara	0.15%
Sacramento	0.09%
Fresno	0.12%
Kern	0.13%
Stanislaus	0.19%
San Diego	0.11%

The economic impacts can be better appreciated when isolating the changes to Real Personal Income on a per capita basis. The results below demonstrate that the average growth in income for residents of these counties is of **approximately $98 in 2014 and $511 in 2020**. That is that income for these individuals will increase by about $100, when adjusting for inflation.

County	Real Personal Income Per Capita in Millions of 2012 Dollars	
	2014	**2020**
Los Angeles	$127	$664
Riverside	$91	$471
San Bernardino	$101	$530
Orange	$130	$667
Santa Clara	$132	$665
Sacramento	$63	$329
Fresno	$73	$384
Kern	$75	$396
Stanislaus	$105	$553
San Diego	$87	$447
Rest of state	$95	$490
California	$102	$515

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