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STAFFING MEMORANDUM

DATE: 6/13/83 ACTION/CONCURRENCE/COMMENT DUE BY: fyi

SUBJECT: IMMIGRATION - Rand Corp

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REMARKS:

Please return this tracking sheet with your response

Edwin L. Harper
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for Policy Development
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jyi - Urban

Rand
SANTA MONICA, CA. 90406

DAVID W. LYON
Vice President

9 June 1983

Dear Friends and Colleagues:

Immigration is profoundly affecting the United States. In the enclosed paper, Dr. Kevin F. McCarthy identifies some key policy questions in the current debate regarding U.S. immigration policy. The paper is being sent to you and other business, government, and community leaders to provide information about this important issue.

The Senate recently passed legislation introduced by Senator Alan Simpson (R, WY) that significantly alters immigration law. A companion bill, sponsored by Congressman Romano Mazzoli (D, KY) is now pending in the House. These bills revise the current preference system for admitting immigrants, grant amnesty for illegal aliens, and impose sanctions against employers who hire illegals. Regardless of their success immigration will continue to be a major public policy concern in the coming decades.

Dr. McCarthy's paper, originally a speech delivered to business groups in Los Angeles and San Francisco, focuses on California--a state housing twenty five percent of the nation's recent immigrants. He observes that an ever increasing flow of immigrants could well strain the capacity of our public institutions and change the way the private sector does business. His conclusions pose a set of questions that must be answered before the public debate can move to the next stage.

I trust you will find the paper informative. Comments are most welcome.

Sincerely,

David W. Lyon.

DWL:jr

Enclosure: P-6846, Immigration and California: Issues for the 1980s

IMMIGRATION AND CALIFORNIA: ISSUES FOR THE 1980s

Kevin F. McCarthy

January 1983

P-6846

The Rand Corporation
Santa Monica, California 90406

IMMIGRATION AND CALIFORNIA: ISSUES FOR THE 1980S[1]

INTRODUCTION

Immigration has become a major national issue. Record numbers of immigrants entered the country in the last decade. Even larger numbers will wish to enter in the future if current disparities persist between wages in the United States and in the Third World. This huge influx of people is exerting considerable pressure on an already tight domestic job market. In the coming decades, it will raise even more serious social and economic issues, particularly if fertility among native born Americans remains low and an increasing proportion of future population growth consists of immigrants and their offspring.

Nowhere are these problems and pressures more evident than in California. Although the numbers are uncertain, best estimates are that the state absorbed well over two million immigrants--legal and illegal--in the 1970s. These people, and those that are sure to follow, represent both a resource and a challenge to the state. To understand both aspects of their presence, we must first understand how immigration is currently reshaping the profile of California and why these trends are likely to continue. We can then consider what these changes imply for business, for the private sector, and ultimately for the social fabric of the state.

IMMIGRATION AND THE CHANGING PROFILE OF CALIFORNIA

The recent influx of immigrants into California is part of a national phenomenon. During the 1970s, the United States experienced a flood of immigrants that rivaled the great waves of immigration at the turn of the century. Although we do not know precisely how many immigrants entered the country during the 1970s--primarily because we have no reliable way to estimate the number of illegals who entered--a reasonable estimate is that approximately 8 million immigrants (legal

[1]This paper is a revised and expanded version of a speech given to the Southern California Roundtable, November 10, 1982, at the Los Angeles Chamber of Commerce.

and illegal combined) crossed the borders between 1971 and 1980. This flow of 800,000 per year approaches the annual average flows of 880,000 for the period 1901 to 1910, the highest immigration flows on record.

California received nearly 30 percent of these newcomers--a percentage far in excess of its 10 percent share of the nation's total population. Indeed, it is no exaggeration to label California the "Ellis Island of the 1980s." The dimensions of this population change are suggested by the fact that the number of foreign-born persons in California increased more between 1970 and 1980 than the total populations (native and foreign-born) of the New England, Middle Atlantic,and major industrial states of the Midwest combined.[2] Approximately half of California's population growth during the decade was due to immigrants.

These immigrants did not spread themselves evenly across the state. Almost 60 percent settled in the state's two largest metropolitan areas: Los Angeles and San Francisco. Indeed, were it not for this influx of immigrants, these two metropolitan centers, which together gained about 600,000 residents during the 1970s, would instead have lost about 400,000 residents. Thus the tremendous attraction that these centers held for immigrants throughout the decade kept them from following the demographic example of absolute population decline found in so many of the nation's larger and older metropolitan areas.[3]

These absolute numbers tell only part of the story. To appreciate fully how immigration is affecting California, we must consider where these immigrants have come from and what they are like.

Since California receives the lion's share of the nation's immigrants, it is not surprising that the state has more of more different ethnic and racial groups than any other state. Significantly, we have the largest concentration of three of the fastest growing immigrant groups: Asians (1/3 of the national total), Central Americans (2/5) and Mexicans (1/2). These are the types of figures that motivate

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[2]California's foreign-born population increased by 1,740,697 while the total populations of the six New England, three Middle Atlantic and five East North Central States (Ohio, Indiana, Illinois, Michigan and Wisconsin) grew by only 1,483,144.

[3]Eight of the nation's 20 largest metropolitan areas (central cities and suburbs combined) lost population between 1970 and 1980.

headlines about California's becoming the nation's first "majority minority state."

Statistics on the national origins of immigrants frequently draw the biggest headlines. However, social and economic characteristics such as immigrants' education and skill levels and their rate of social service usage will be more important in determining how they will affect economic and social conditions in California.

As with any large population group, it is difficult to generalize about the "typical" or average characteristics of recent immigrants. Nonetheless, there are some noteworthy differences among immigrants that can be summarized in terms of their entry status. The relevant categories are: (1) permanent resident aliens (the traditional immigrant category), (2) refugees, and (3) illegal aliens. It is impossible to estimate reliably what percentage of the total immigrant population falls into each category, because we have no reliable way to count the illegals who enter and we do not know how many of those who enter legally or illegally later leave.[4] However, a rough estimate based on the evidence available suggests that 40 percent of the immigrants entering the country during the 1970s entered as permanent residents, 20 percent as refugees and 40 percent as illegals.[5]

Of the three groups, permanent residents most closely resemble the native-born population. They are better educated and more highly skilled than either refugees or illegals. After an initial period of adjustment to American society, they generally do quite well. Indeed, studies suggest that after a period of 7 to 10 years they earn as much as, if not more than, native-born persons with the same characteristics. Permanent residents are also more likely than other immigrants to speak some English when they arrive or to learn it more quickly after they arrive. They are also heavily concentrated in the working ages: 60

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[4]Estimates of emigration rates among legal immigrants vary widely and appear to differ dramatically among different national origin groups. For example, one recent study suggests overall emigration rates of as much as 50 percent after 10 years and country specific rates varying from as low as 10 percent to as high as 75 percent.

[5]A substantial but unknown percentage of the illegals entered the country legally on temporary visas and subsequently became illegal by violating the terms of their visas.

percent are between 16 and 44 as compared with 46 percent of the native-born. Finally--and no doubt as a result of these other characteristics--permanent residents have low rates of social service and welfare usage.

Any general characterization of refugees will be heavily influenced by the recent influx of Southeast Asians, who differ significantly not only from earlier waves of European refugees but also from the first waves of Vietnamese who entered this country soon after the fall of Saigon. The effect of these differences is particularly striking in California, where as many as 40 percent of the recent Southeast Asian refugees have settled. Unlike earlier groups of refugees, the Southeast Asians entering after 1978 face a number of serious adjustment problems. On the whole they are poorly educated--indeed, many are illiterate in their native languages. The skills they do have are generally ill-suited to an advanced industrial economy. They are more heavily concentrated in the dependent ages (youth and old age) than are other immigrants. Finally, recent refugees tend to rely heavily on public services and welfare. For example, studies suggest that perhaps as many as 70 percent of recent refugees are on welfare of some kind.

Although illegals constitute a very large share of all immigrants, we know least about them. The conventional wisdom--based primarily on small and not necessarily representative samples--suggests that illegals are mainly young males working in seasonal jobs, often in agriculture, who tend to make repeated but short-duration trips to the United States. It also suggests that most illegals pay more in taxes than they consume in services and thus provide a net gain to the U.S. economy.

However, more recent work suggests that this profile is changing. Today, a far higher percentage of illegals live in families--either husbands and wives with children or mothers with their children. In addition, the majority of illegals--like most immigrants--live in urban areas and work in urban service or manufacturing jobs. They appear to be staying in the country for longer periods than was first thought--a finding consistent with their shift out of seasonal agricultural jobs and into year-round urban employment. Finally, although we cannot precisely estimate the rate at which they use public services, there is reason to believe it is higher than first thought.

All three of these immigrant categories are strongly attracted to California. What accounts for the state's attraction, and can we expect it to continue?

California's attractive power can be characterized quite readily: The state has a rich economy, is located in the right place, and has a long history of non-European immigration. Since most immigrants, both legal and illegal, come to work, the vibrant growth of California's economy has acted as a powerful magnet.[6] In addition, California's position at the hub of the Pacific Basin and adjacent to Latin America makes it a natural entry point for immigrants from Asia and Latin America, from which 70 percent of the nation's immigrants now come. Finally, today's immigrants, like their predecessors from Europe, are drawn to those places where their fellow countrymen have previously settled, and California has a long history of Asian and Hispanic immigration.

There is no reason to believe that California's attractions will pale in the future. Current economic conditions here, as elsewhere in the nation, are sluggish; however, when the national economy eventually revives, California should resume its place among the nation's economic leaders. Similarly, we can expect that the vast majority of immigrants during the next decade will come from Asia and Latin America. Indeed, if the current disparities in relative wages and population growth between the developed and less developed countries increase, we can expect proportionately increased entry pressure from these and other countries in the less developed world.

If the immigration pattern of the 1970s persists in the 1980s, what can California expect?

- Some 200,000 to 250,000 new immigrants will enter the state annually.
- They will be concentrated in the working ages and looking for work.

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[6] In the 1970s, California added new jobs at almost twice the national rate.

- The majority will come from Latin America and Asia.
- Approximately 60 percent will be refugees or illegals. They will be poorly educated, generally unskilled, and potentially heavy users of public services.
- The remaining 40 percent will enter as permanent resident aliens. Although better educated and more skilled, they will still face a period of adjustment.

IMPLICATIONS FOR BUSINESS

What will these trends mean for business? Barring an unforeseen rise in fertility among the native-born, we can expect an increasing share of California's labor force to consist of immigrants and their offspring. We have already noted that immigrants were responsible for one-half of the state's total population growth during the 1970s. There are at least three reasons to expect that immigrants will contribute even more substantially to the growth of the state's labor force in the 1980s. First, because the majority of immigrants are in the working ages, a much higher percentage of immigrants than of native-born residents are of labor force age. Second, because of the so-called "baby bust," the absolute number of native-born 5 to 15 year olds, who will compose the next generation of labor force entrants, declined by 10 percent between 1970 and 1980. Thus, even if the absolute number of immigrants entering the state remains constant over the next decade, their share of new labor force entrants will rise. Finally, California, and especially its large metropolitan areas, appear to be losing the attraction they once held for migrants from other states. This fact suggests that California's businesses cannot count on meeting future labor needs with migrants from other states.

We need much more information--especially about the characteristics of immigrants and the nature of their adjustment to the labor market--to estimate with any precision how they will affect business in California. However, based on what we know now, the following projections seem reasonable.

Immigration is likely to intensify the problems that California's businesses will face in meeting their future manpower needs. Immigrants have traditionally supplied the nation's demand for cheap, low-skilled labor. However, California's markets for such labor, the traditionally dominant agriculture and basic manufacturing industries, are no longer growing. Their place in the state's economy has been usurped by services and high-technology manufacturing, which require more highly skilled workers. It is these high-tech industries that are expected to spur California's future economic growth. However, because many immigrants will lack the skills necessary to work in them, there is a potential mismatch between the state's future labor supply and its likely labor needs.

To compensate for this mismatch, the state may need special training programs, much like those instituted for native-born minorities during the great society era. But such programs will cost money. If industry decides to do the training, it will raise labor costs. If government does the training, it will raise taxes. Moreover, immigrants' limited English language skills may make such training very expensive and very difficult. Of course, not all immigrants will need special training. For example, many of the Asian immigrants who entered the country in the 1970s are highly skilled--indeed, more skilled than any other group of immigrants in our nation's history.

The majority of immigrants, at least through the first generation, will be concentrated in low-skill, low-wage jobs in the service and manufacturing sector, where their presence may depress wages. Indeed, this cheap labor may be all that keeps many of the state's low-wage industries from going out of business or moving overseas.

The employment picture could be further clouded if the current Simpson-Mazzoli bill becomes law. This bill would impose civil and, in some cases, criminal penalties on employers who hire illegal/undocumented workers, and would require employers to verify and document the legal status of all workers. Employers who fail to maintain records on the legal status of new hires may be subject to civil penalties even if subsequent checks prove that those employees were in fact eligible for employment. These provisions of the bill will

present employers with a difficult choice. If they continue to hire immigrants, who will constitute a larger share of new workers, they face the prospect of increased costs for processing and maintaining records. On the other hand, if they attempt to avoid such problems by hiring only the native-born, they will be excluding a large share of new labor force entrants and may become subject to anti-discrimination suits.

The prospect of continuing rapid immigration raises important but currently unanswerable questions about the kind of capital stock best suited to a labor force increasingly composed of immigrants and their offspring.

IMPLICATIONS FOR THE PUBLIC SECTOR

The degree to which immigrants are successfully absorbed into California's economy will not only affect business; it will also help determine the demands imposed upon the public sector and correspondingly the taxes Californians will pay in the coming decade. Currently, state and local governments in California, as elsewhere, are under severe fiscal pressures from a number of directions. First, federal aid programs to state and local governments, which helped fuel an expansion of public services during the 1970s, are now being sharply cut back. Moreover, these cutbacks are likely to intensify, at least in the shortrun, in order to reduce prospective federal budget deficits. Second, state and local governments now face added responsibility for providing public services. These added responsibilities result both from the federal government's "new federalism" programs, which are shifting the management and funding of social programs to the states, and from a series of court decisions that have expanded the guarantees of public services to citizens and non-citizens alike. Finally, a variety of fiscal restraint measures (e.g., Proposition 13) have reduced the ability of state and local governments to raise local revenue. The immediate result of these pressures has been twofold: an impending fiscal crisis and a general decline in the quality and quantity of public services.

How will immigrants affect this situation? The answer will vary among the three major categories of immigrants: permanent resident aliens, refugees, and illegals.

As already noted, permanent resident aliens are not, in general, heavy service users. To the extent that they cluster geographically, they can add some expenses in the form of special language provisions, e.g., bilingual teachers and public servants, and publication of foreign language ballots and public notices. On the whole, however, there is little reason to expect that permanent resident aliens will have any major effect on local public service levels.

Refugees, on the other hand, are currently intensive users of such public services as language programs, health care, and job training. Moreover, they have very high welfare recipiency rates. Thus, wherever they settle, they can indeed have a pronounced effect on the demand for public services.

The potential effect of refugees on the local public sector has been heightened by two federal actions. In 1980, a new refugee act broadened the definition of a refugee and entitled refugees to a number of special public service programs for a period up to three years. These services were to be provided by state and local governments, which would then be reimbursed by the federal government. Recently, the federal government cut the reimbursement period to 18 months, leaving state and local governments to fend for themselves after that.

But the big imponderable about immigration and the public sector is how the legalization or amnesty provision of the current legislation will affect states and localities. Although the current bill would exclude some portion of those who would be legalized from federally funded service programs, they would still be entitled to most state and locally funded services. The bill attempts to deal with this potential problem by authorizing the expenditure of federal funds to reimburse those local areas most directly affected. However, even if those funds are appropriated, there is no way to know if the proposed funding level of 1.3 billion will cover the likely costs. Since we do not know how many illegals there are, how many will qualify and take advantage of amnesty, or even how many are currently using public services, it is impossible to know how much legalization will cost and whether federal reimbursement funds will be adequate. However, there is little question that a legalization program will increase service usage among the

formerly illegal population and may add to the administrative costs of those programs if they attempt to filter out the claims of legalized from still illegal immigrants.

Of course, we can expect the majority of legalized immigrants to work just as the majority of illegals are no doubt now working. To some extent the taxes they pay on their wages will help compensate for their service usage. However, unless legalization induces higher labor force participation rates or higher wages among former illegals, those tax payments will not represent any addition to local and state revenues. Moreover, a substantial portion of the taxes illegals currently pay goes to the federal government in the form of income and social security taxes rather than to the communities in which they currently live.

These public sector issues raise a more fundamental issue for our society. As a nation that has historically welcomed immigrants, we now confront a difficult choice. Either we decide to let current and future immigrants make it on their own--a decision which may have little effect on most immigrants but could create the potential for an underclass among the most needy--or we decide to facilitate the adjustment process by providing the necessary services and increasing our taxes. If we decide on the latter, then we risk fostering resentment and conflict among the native-born poor who will question why--in a time of economic trouble--immigrants are getting special help while they are not. Indeed, we have already seen signs of such conflict.

CONCLUSION

Immigration will most certainly affect both the business community and the state as a whole in the next decade. Unfortunately, we lack basic information needed to estimate the magnitude of these effects. In the business sector, for example, we need to know how the earnings and employment patterns of immigrants differ from those of native-born workers--and why--if we are to estimate how future immigration will affect wages. Similarly, to judge whether immigrants will require special training programs, we need to understand the economic performance of current immigrants and determine how it changes over time. Perhaps most important, if we are to estimate how different sectors of California's economy will be affected by current trends or

proposed legislation, we need to know both the number of immigrants employed in each industry and occupation, and their characteristics.

In the public sector as well, we need a much more thorough grasp of the current situation. If we are to provide any useful estimate of the future demand for and cost of public service delivery to immigrants, we must know what public services immigrants currently consume and how that consumption varies across immigrant groups. We also need to know how the costs of providing services vary with the size of the immigrant population. Where are California's immigrants located? How many of them would qualify for amnesty, and how many of those qualified would apply?

In the midst of these uncertainties, there is one thing of which we can be sure: Pressures for immigration into the United States, and into California in particular, will increase. How we respond to those pressures will shape our state's future.