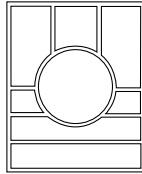


THE ECONOMIC IMPACT OF THE MEXICO-CALIFORNIA RELATIONSHIP





The Tomás Rivera
POLICY INSTITUTE

Founded in 1985, the Tomás Rivera Policy Institute advances critical, insightful thinking on key issues affecting Latino communities through objective, policy-relevant research, and its implications, for the betterment of the nation.

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September 2005

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THE ECONOMIC IMPACT OF THE MEXICO-CALIFORNIA RELATIONSHIP



Jeronimo Cortina

Rodolfo de la Garza

Sandra Bejarano

Andrew Wainer



August 2005

Mexico and California share a deep, rich history dating back to before 1848. Indeed, Mexico and California have had a singular relationship since the middle of the 16th century, when the first Californios arrived. The two share a unique heritage of culture, history and commerce that is strongly ingrained and intertwined even today. And the international border that separates the two plays witness to the strong effect that one has on the other.

This report, "The Economic Impact of the Mexico-California Relationship," illustrates how the dynamics of commerce, tourism, investment and immigration shape this relationship. It helps us gain a greater understanding of the socioeconomics and demographics of the immigrants of Mexican descent in California and their economic impact on the state. Bank of America is honored to partner with the Tomás Rivera Policy Institute and sponsor this report.

Bank of America has a longstanding immigrant tradition, having been founded by immigrants, for immigrants. Today, Bank of America is as committed to hardworking immigrants as it ever was. Our presence in the community is evident — 90 percent of the nation's Hispanic households and 75 percent of the nation's population overall live where we have stores. We serve more than 44 percent of Hispanics in the United States. Seventy-five percent of all our new hires for consumer sales and service in 2004 were Spanish speaking. And most recently, Bank of America demonstrated its leadership in the financial industry as the first bank to eliminate all fees for remittances for customers sending money to Mexico.

We extend our grateful thanks to Rubén Beltrán, Consul General of Mexico in Los Angeles, for his vision of a report that will strengthen the bonds between Mexico and California, and for his leadership in making this report a reality. We share his vision of improving the lives of Hispanics in our community and providing them with the financial tools they need to help them achieve their goals and dreams.

Cordially,

A handwritten signature in black ink, appearing to read "Leticia Aguilar".

Leticia Aguilar
Los Angeles Market President
Consumer Banking Executive – Los Angeles Division
Bank of America

SECRETARÍA DE RELACIONES EXTERIORES

MÉXICO

August 2005

It is an honor to present this outstanding study titled *The Economic Impact of the Mexico-California Relationship*, which I expect to be a crucial tool in our efforts to create a better understanding of the multiple links between our country and the state of California, with a special emphasis on the valuable contributions of Mexican migration.

I would like to express my gratitude and appreciation to the Tomás Rivera Policy Institute for its leadership in this undertaking. This document reflects their dedicated effort.

I would also like to thank Bank of America for sponsoring this project. Without their vision and support, we would not have been able to present this document that shows the closeness and interdependence that draw Mexico and the state of California together.

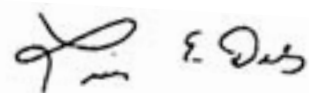
As this study illustrates, the relationship between our country and California is extremely important and beneficial for all. The piece provides an analytical framework to assess the impact of our economic and social interactions, which have been an essential factor underlying our mutual development. Of particular relevance and shrewdness is its assessment of the impact of the foreign-born population of Mexican origin. As the study shows, the traditional focus on the costs of immigration lacks a coherent approach towards the contributions of immigration to the Californian economy, not only directly, but also through Social Security payments and its important influence on economic productivity. This benefit would be enhanced should we consider the overall taxable contribution of immigrants at the federal level, which outpours to the state and local dimensions.

The study also takes into account more traditional patterns of economic impact, such as investment, tourism and trade, where it is worth mentioning that Mexico ranks as the largest market for exports of Californian goods.

This document, as a contribution to the better understanding of the mutually beneficial flows between Mexico and California, is part of a major effort to assess the overall impact of the complex reality that stems from the economic and social interactions that join Mexico and the United States of America.

As our relationship grows stronger and more complex than ever, and the ties that bind us are much deeper and more meaningful than geography, the accurate understanding of the effects of our interactions is not only desirable but necessary. It is with this in mind that the Mexican Foreign Ministry remains extremely committed to this kind of achievement and the serious work that made it possible.

As our societies are increasingly dependent on each other, it is in our shared interest to work together in order to develop a more competitive and prosperous North America. It is also our firm belief that our neighborhood is a condition of advantage and opportunity that can be truly fulfilled only through the profound understanding that studies such as the one presented here can provide.



Luis Ernesto Derbez Bautista
Secretary of Foreign Affairs of Mexico



August 2005

The protection of Mexicans living abroad and the promotion of Mexican values and interests are key responsibilities for all the representatives of the Mexican Government abroad. To achieve this set of goals, one of the tools to be privileged is the dissemination of reliable information pertaining to Mexico, Mexicans living in the United States, and the complex ties between our economies. Thus, a core responsibility of the Consulate General of Mexico in Los Angeles is to promote and contribute to the better understanding of the Mexico-California relationship from an economic, political and social perspective.

To this end, we decided to promote the preparation of the present study. Fortunately enough, our proposal was received with enthusiasm by Bank of America, which generously underwrote its preparation and completion. Thankfully, the Tomás Rivera Policy Institute accepted the challenge and today we are proudly presenting one of the research pieces that have made TRPI such a renowned and reputed center of excellence.

The presentation of *The Economic Impact of the Mexico-California Relationship* is a remarkable action considering the amount of information that was collected, as well as the great efforts the research team made to find recent and reliable data in order to shed light on the real dimension of the relationship between Mexico and California.

For decades scholars sustained that California largely benefited from its vicinity with Mexico; conventional wisdom and common sense, have always praised the virtues of the intense demographic flows between Mexico and California, to which both, migrants and visitors, contribute with millions of dollars in taxes and the purchase of goods and services, thus also creating thousands of jobs in California. Now this study presents a comprehensive analysis of the relationship, allowing us, for the first time, to assess the real weight of the Mexican factor in the economy of California and to put dollars and cents to the price tag of a relationship which, as it is now amply demonstrated, brings solid benefits to both sides.

It is our expectation that as a result of the dissemination of this study, scholars will have access to an excellent source of data, and the general public and policy makers will learn that Mexico is much more than the biggest trading partner of California and the source of a very profound relationship that represents the undeniably significant figure of 159 billion dollars per year. Mexico is a very good neighbor and Mexicans are the best partners California has.

The Consulate General of Mexico in Los Angeles is most grateful to the team that made this study possible. The leadership of Leticia Aguilar of Bank of America whose effort, made possible the funding to publish this project, is to be commended. Equally, her comments on the input that Mexicans have on the economic life of California were of utmost relevance in our discussions. Likewise, I want to reiterate my appreciation to the entire team of the Tomás Rivera Policy Institute, under the outstanding leadership of Harry Pachon, whose hard work has made possible this important study that contributes to the better understanding of the Mexico-California relationship.

We will dwell on the platform that this study provides to promote the construction of the bridges of understanding our relationship demands. We invite the reader to follow suit.

Rubén Beltrán
Consul General of Mexico, Los Angeles, California

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EXECUTIVE SUMMARY

The purpose of this project is to present an analysis of the economic impact of the Mexico-California relationship. The report analyzes the benefits and costs that the immigrant and native-born Latino populations of Mexican origin contribute to the California economy. In addition, the report presents an analysis of the Mexico-California relationship related to commerce, investment and expenditures, and tourism. The report is based on the most recent, publicly available information from government, private, and higher education institutions from both the United States and Mexico.

The report is divided in two parts. The first part analyzes the economic impact of the Mexico-California relationship related to commerce, investment, and tourism. The second part analyzes the demographic and socioeconomic characteristics of the Latino population of Mexican origin, paying particular attention to the purchasing power of the native- and foreign-born populations as well as to the costs associated with immigration for California.

The Mexican-origin population in California comprises approximately 25 percent of the total state population. Primarily concentrated in the regions of Southern California and the San Joaquin Valley, at nearly 9 million people, 3.7 million (43%) are foreign born and almost 5 million are native born (47%). The Mexican foreign-born population, which comprises documented and undocumented individuals, has an

estimated purchasing power of \$51 billion compared to \$57 billion of the native-born population. Together, they account for almost 10 percent of the total California purchasing power and 57 percent of the total California Latino purchasing power.

Given the rapid increase of immigration from Mexico since the early 1990s, a common concern is immigrants' effect on public expenditures and revenues and the economy in general at the local and state level. The fiscal cost to the state of California related to immigration from Mexico is approximately \$179 million per year. Yet, the state's relationship with Mexico is complex and it is important to consider both the impact of immigration as well

as the economic benefits of California's main trading partner. In addition, this figure should be used with caution since it does not tell us what the final fiscal impact of new immigrants and their descendants will be over time.

Among all trading partners, Mexico ranks as the largest market for exports of California-made goods. The Mexico-California commercial relationship in 2002 was worth approximately \$36 billion, representing

approximately 7 percent of the total bilateral commercial activity between the United States and Mexico. Moreover, approximately 177,000 jobs, that is, 17 percent of all export-supported jobs in California, are related to the commercial relationship with Mexico.



The investment relationship between Mexico and California was worth approximately \$10 billion in 2000. This figure includes rent payments in California of approximately \$8.6 billion a year, \$1.1 billion for Mexican direct investment in California, which supports more than 9,000 jobs, and about \$338 million in transaction fees generated by the estimated \$4.5 billion remittances that the Latino population of Mexican origin in California remitted to Mexico in 2004.

The Mexico-California tourism relationship was worth approximately \$5 billion in 2002. This includes \$1.5

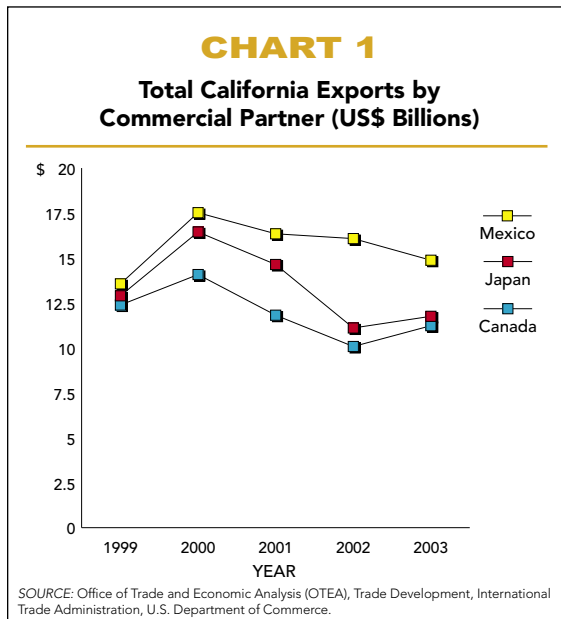
billion of Mexican direct expenditures in California, which supports more than 17,000 jobs, and \$600 million direct Californian expenditures in Mexico. This figure also includes the almost \$2 billion in Mexico-California border expenditures and about \$1 billion in state and local tax revenues generated from Mexican visitors' expenditures.

The report concludes that the relationship between Mexico and California generates over \$159 billion per year for the state and supports more than 200,000 jobs in the economic sectors analyzed in this study.

I. THE ECONOMIC DIMENSION OF THE MEXICO-CALIFORNIA RELATIONSHIP

This section has three parts. The first analyzes the commercial relationship between Mexico and California. The second provides an analysis of investments such as real estate and foreign direct investment. The last part of this section analyzes Mexico and California tourism flows.

The United States receives almost 90 percent of Mexico's exports and dispatches over 60 percent of its North American exports to its southern neighbor. Mexico has been California's main trading partner since 1999. In 2002, Mexico purchased over 17 percent of all California exports, accounting for over \$16 billion (Chart 1).



COMMERCE

In 2002, the Mexico-California commercial relationship was worth approximately \$36 billion, representing approximately 7 percent of the total bilateral commercial activity between the United States and Mexico. The Mexico-California commercial relationship represents about 3 percent of California's gross state product and approximately 5 percent of Mexico's gross domestic product (GDP).

Exports to Mexico

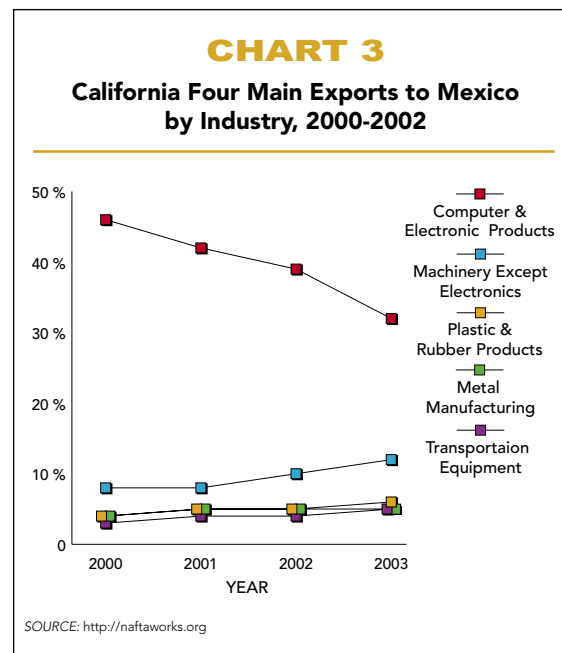
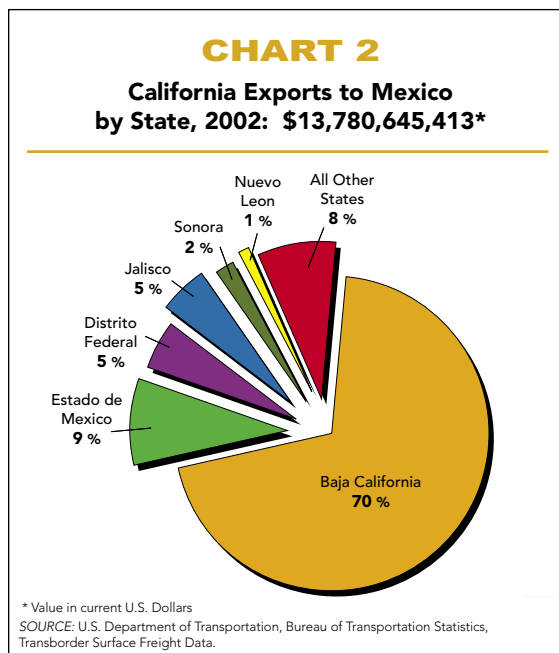
As Table 1 shows, California is among the top exporting states to Mexico, second only to Texas. California exports are approximately 17 percent of the total exports from the United States to Mexico. Moreover, this is 1.5 times larger than the total exports from Michigan, Arizona and Ohio combined.

TABLE 1
Exports to Mexico (US\$ Billions)

State	1999	2000	2001	2002
U.S. Total	87.0	111.7	101.5	97.5
Texas	37.9	47.8	41.6	41.6
California	13.6	17.5	16.3	16.1
Michigan	2.4	4.0	4.8	4.2
Arizona	3.3	4.7	3.6	3.0
Ohio	1.4	2.0	2.1	2.1

SOURCE: Office of Trade and Economic Analysis (OTE), Trade Development, International Trade Administration, U.S. Department of Commerce.

In 2002, more than two-thirds of California's trans-border surface exports to Mexico were heading to Baja California, which reflects the geographical proximity between the two states (Chart 2).



Technology is California's leading export commodity. Computers and electronics and machinery commodities typically account for over 45 percent of California's exports to Mexico (Chart 3). In 2002, computer and electronic products accounted for \$6.3 billion and machinery accounted for \$1.7 billion. Together they accounted for almost 50 percent of California's total exports to Mexico. Other major items include food, metal products, and chemicals (Table 2).

Exports and Employment in California

According to the latest available data (U.S. Census Bureau, Economic Census, 1997), California is the state with the most export-related jobs. Such employment accounts for about 10 percent of California's total private sector employment (approximately 1.15 million jobs). California exports to Mexico directly and indirectly supports

Imports From Mexico

In 2002, California was ranked third among the U.S. importer states of Mexican goods, accounting for almost 18 percent of all Mexican imports (Table 3).

Since the North American Free Trade Agreement (NAFTA) was established in 1994, imports from Mexico to California increased dramatically. In 1995, Mexico exported more than \$9 billion to California and this increased to over \$20 billion in 2002 (Chart 4).

TABLE 2
California Exports to Mexico, 2000-2002 (US\$ Billions)

	2000	2001	2002
Total Exports, All Industries	17.5	16.3	16.1
Computer and electronic products	8	6.8	6.3
Machinery, except electrical	1.3	1.3	1.7
Food and kindred products	0.57	0.8	0.64
Fabricated metal products	0.74	0.78	0.81
Plastics and rubber production	0.72	0.76	0.76
Chemicals	0.64	0.69	0.87
Transportation equipment	0.58	0.65	0.64
Electrical equipment, appliance, and components	0.76	0.62	0.61
Paper	0.58	0.56	0.54
Apparel and accessories	0.57	0.54	0.56
Other industries combined	3.04	2.80	2.67

SOURCE: U.S. Census Bureau's Foreign Trade Division

TABLE 3

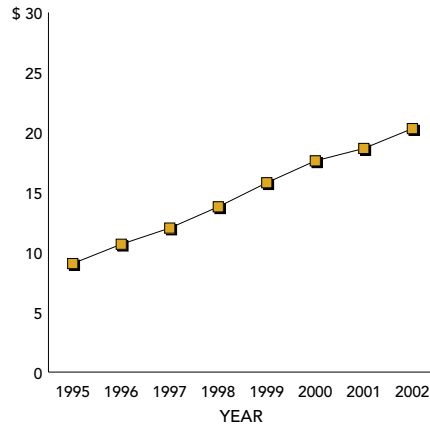
U.S. Imports from Mexico by State, 2002

State	Rank	Value*	%
Texas	1	24,857,173,610	21.73%
Michigan	2	24,099,475,558	21.07%
California	3	20,307,974,172	17.75%
Illinois	4	4,041,156,091	3.53%
Ohio	5	3,740,228,377	3.27%
Indiana	6	3,566,398,966	3.12%
Arizona	7	3,476,249,685	3.04%
North Carolina	8	2,962,765,763	2.59%
New York	9	2,945,299,350	2.57%
Tennessee	10	2,512,355,393	2.20%
Total Imports		114,380,799,408	100%

NOTE: Includes all land modes of transportation
 *Value in current U.S. Dollars
 SOURCE: U.S. Department of Transportation, Bureau of Transportation Statistics, Transborder Surface Freight Data

CHART 4

Imports from Mexico to California, 1995-2002 (US\$ Billions)



SOURCE: U.S. Department of Transportation, Bureau of Transportation Statistics, Transborder Surface Freight Data.

approximately 177,000 jobs in the state, with more than half of these jobs resulting from export growth under NAFTA. In total, 17 percent of all export-supported jobs are related to the Mexico-California commercial relationship.

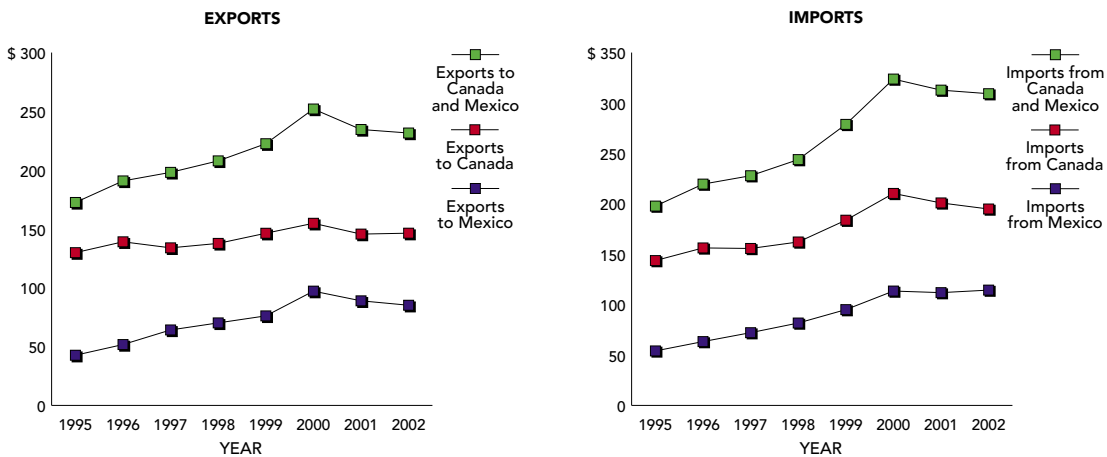
NAFTA Total Exports Via All Means of Freight

Since the launch of NAFTA, trade among the United States, Mexico and Canada has more than doubled.

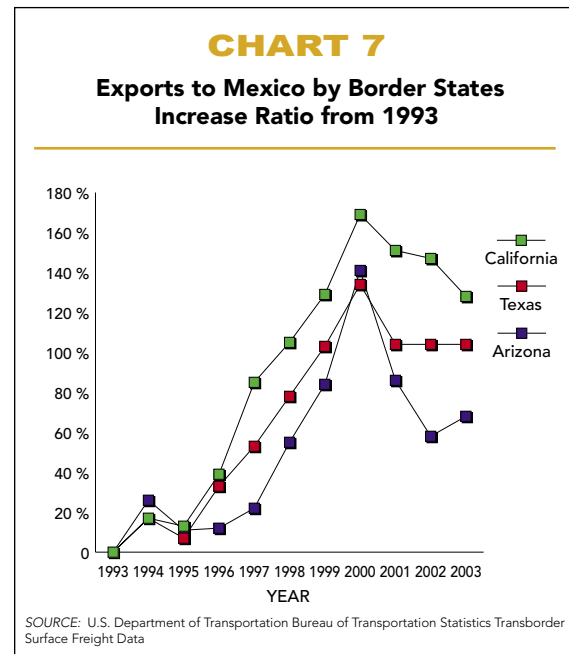
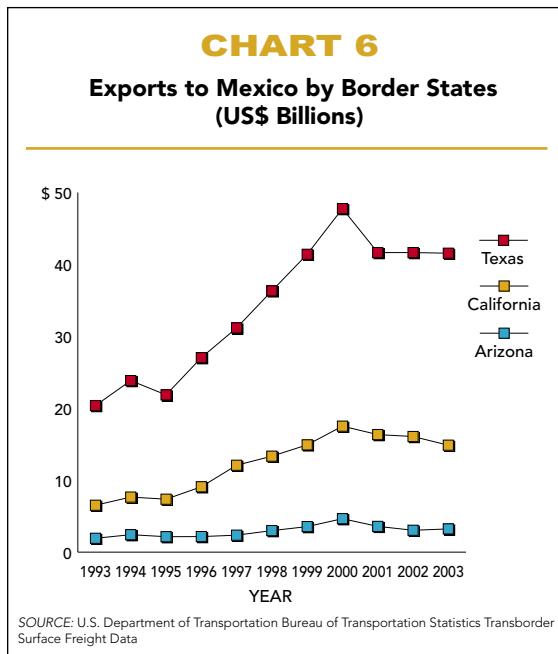
According to the International Monetary Fund, trade between the partnering countries increased from \$306 billion in 1993 to approximately \$621 billion in 2002. Total surface exports and import trade between the United States, Canada and Mexico has grown steadily. Between 1995 and 2002, U.S. total surface exports to Mexico increased from \$42.7 billion to \$85.2 billion. Imports from Mexico between the same periods of time increased from \$54.0 billion to \$114.4 billion (Chart 5).

CHART 5

U.S. NAFTA Related Exports and Imports Total Surface (US\$ Billions)



SOURCE: U.S. Department of Transportation Bureau of Transportation Statistics Transborder Surface Freight Data



During this period, exports from U.S. border states, and from California in particular, increased substantially (Chart 6). California exports grew on average 128 percent while exports to Mexico from Texas and Arizona grew, on average, 104 and 68 percent, respectively (Chart 7).

By far, Mexico is California's main NAFTA trading partner. Exports to Mexico have grown significantly since NAFTA came into effect in 1994 (Chart 8) and far outpace increases to Canada. However, since 1995, the California trade balance with Mexico has been negative (Chart 9). This pattern is explained by the fact that imports from Mexico increased at a faster rate than exports of California goods to Mexico.

INVESTMENT AND EXPENDITURES

Remittances

The highest volume of remittances, or money sent back to the home country, in the world is between the United States and Latin America. It is estimated that over \$30 billion in remittances were sent from the United States to Latin America during 2004,

with California residents sending approximately \$10 billion. California alone generates what states with high Latino populations, such as New York, Texas and Florida, generate combined. More than 60 percent of Latin American immigrants living in the United States send money home. For Mexican immigrants, these figures are very similar. According to the Tomás Rivera Policy Institute (2002, 2003), 68 percent of Mexican immigrants send on average \$243 per month. It is estimated that the Hispanic population of Mexican origin in California sent \$4.5 billion to Mexico in 2004, generating approximately \$338 million in transaction fees for California businesses.

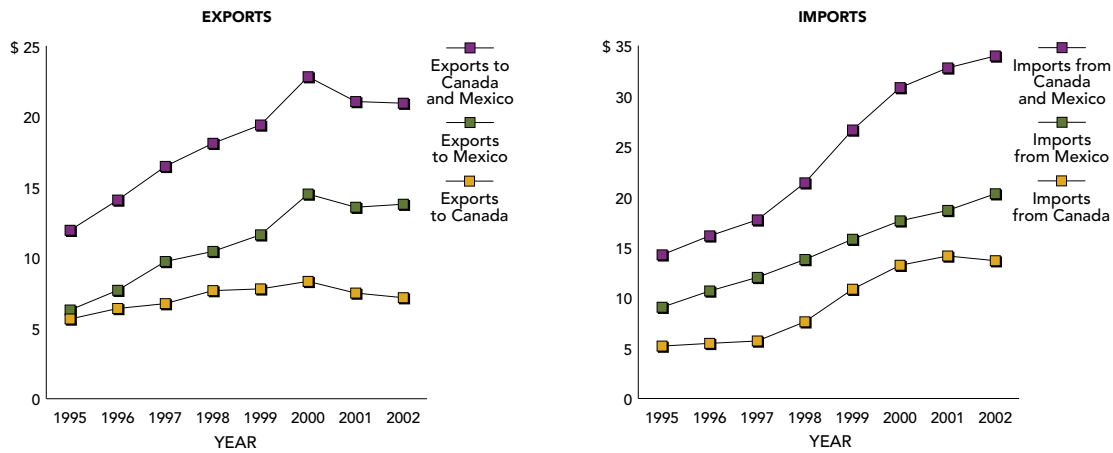
A general trend observed in the remittances research is that the volume of transactions has been increasing recently as the commissions charged for this service have decreased. Commissions have decreased approximately 7.5 percent and a further decline in these costs may spur additional increases in transactions.

Real Estate in California

The real estate market in California is one of the largest in the United States. According to the 2000 Census, California has over 12.2 million housing

CHART 8

California NAFTA Related Exports and Imports Total Surface (US\$ Billions)



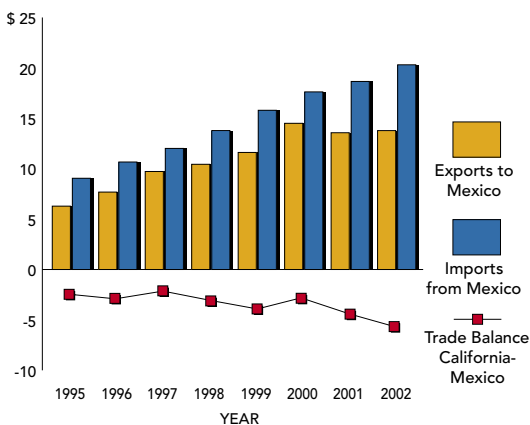
SOURCE: U.S. Department of Transportation Bureau of Transportation Statistics Transborder Surface Freight Data

units with an estimated median value of \$211,000 and average monthly rent of \$747. The Hispanic population of Mexican origin in California owns or is paying a mortgage on approximately 5 percent of the total housing units. The aggregated value of the units with mortgages owned by Latinos of Mexican origin is \$115 billion (Table 4). Moreover, the Hispanic population of Mexican origin pays approximately \$718.5 million in monthly rent payments.

According to Census 2000 data, settled immigrants are much more likely to be owners than are recent immigrants (Chart 10). During the last decade, 440,000 additional foreign-born Mexicans became homeowners (most of them members of the 1980s- and 1990s-arrival cohorts). If this trend is maintained, we can project that the aggregate value of the housing units of the Mexican-origin population, both native-born and foreign-born, with mortgages will be \$130 billion by 2010.

CHART 9

California Trade Balance with Mexico (US\$ Billions)



SOURCE: Authors with data from U.S. Department of Commerce

Bilateral Mexico-U.S. Foreign Direct Investment

According to estimates of the Public Policy Institute of California (Shatz & Lopez-Calva 2004; Haveman et al. 2002), the value of property, plants, and equipment owned by Mexican companies in California in 2000 was approximately \$1.1 billion. More than 70 percent of Mexican direct investment in California is located in the border region (Imperial and San Diego counties), while more than 47 percent of California's direct investment in Mexico is located in the border states of Baja California, Chihuahua, Sonora, and Tamaulipas. More than two-thirds of all employment in Mexican-owned firms in the United States

is in manufacturing. Of this, about 60 percent is in the food industry. The Public Policy Institute of California estimates “that employment in Mexican-owned firms in California may well have risen to more than 25,000 in 2001” (Haveman et al. 2002: 4).

TABLE 4
Housing Units with Mortgages by Race/Ethnicity

	African American	Asian American	Mexican American
Housing Units with a Mortgage, Contract to Purchase, or Similar Debt	224,942	465,923	653,746
Aggregated Value of Housing Units with a Mortgage	\$45,907,555,000	\$147,889,157,500	\$115,552,890,000

SOURCE: Census 2000, Public Use Microdata Sample 1%, (PUMS1%), prepared by the U.S. Census Bureau, 2003

TOURISM

The Department of Commerce estimated that in 2002, the United States was the destination of 9.8 million Mexican travelers who spent approximately \$5.5 billion. California’s share of the Mexican tourism market to the United States is approximately 27 percent; this market share translates to more than \$1.5 billion of direct expenditures by Mexican visitors to California.

Los Angeles is the destination of more than 50 percent (1.4 million) of the total Mexican visitors to California. According to the regional director of the Office of the Americas at the Los Angeles Convention and Visitors Bureau, Mexican visitors to Los Angeles spend approximately \$365 million a year, the most of any national group and more than 10 percent of the \$3 billion spent by foreign visitors in the Los Angeles area.

In 2002, 13 percent of U.S. visitors to Mexico came from California (1.1 million persons). According to Mexico’s Foreign Ministry, California residents spent approximately \$596 million in Mexico in 2002. Of the \$596 million, approximately \$173 million was spent by Californians of Mexican origin.

California Jobs Related to Tourism

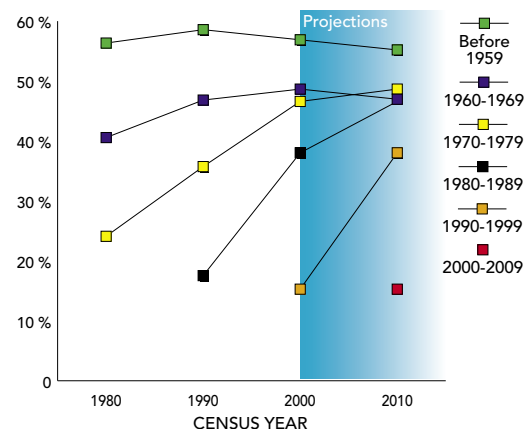
According to Dean Runyan Associates, in 2002, every \$85,780 spent in travel-related expenses by Mexican citizens’ visits to California supported one job in the

state. Each \$100 of travel spent generated \$2.28 in local tax revenues and \$4.01 in state tax revenues (Table 5).

Cross-Border Expenditures

A traveler whose trip does not include an overnight stay is considered a day visitor. These include, for instance, people that cross the border for dinner, to shop, or to get medicines. Several studies have concluded that 40 to 60 percent of border crossings from Mexico to the United States are made for shopping. The Universidad Autonoma de Baja California estimated that Baja Californians

CHART 10
Homeownership Trajectories of Immigrant Arrival Cohorts, 1980-2000



SOURCE: Bureau of Economic Analysis, International Economic Accounts

TABLE 5
Direct Economic Impact of Mexican Visitors Expenditures, 2002

\$1.5 Billion
Direct Expenditures by Mexican Visitors to California

17,487
Jobs Supported

\$657,894,737
in Local Tax Revenues

\$374,064,838
in State Tax Revenues

SOURCE: Authors analysis of data from Dean Runyan Associates, "California Travel Impact by County 1992-2002."

TABLE 6
Mexico-California Bilateral Tourist Relationship, 2002 (US\$ Billions)

Mexican Direct Expenditures in California	1.50
U.S. Expenditures in Mexico	0.60
Border Expenditures	1.96
Local Tax Revenue from Mexican Visitor Expenditures	0.66
State Tax Revenue from Mexican Visitor Expenditures	0.37
Total	5.09

SOURCE: Authors analysis of data from Crossborder Business Associates, Universidad Autonoma de Baja California and Dean Runyan Associates.

spent at least \$1.6 billion each year in the border region (Lopez & Serrano 2002). In 2002, an analysis of Mexico's Central Bank data by Crossborder Business Associates showed that Mexican citizens crossing the border at Tijuana spent at least \$950 million a year, and Mexican citizens who crossed

at Mexicali spent approximately \$200 million. On the other hand, U.S. visitors who crossed at Tijuana spent at least \$812 million during 2002. Table 6 summarizes the Mexico-California bilateral tourist relationship in 2002.

II.

THE DEMOGRAPHIC AND SOCIOECONOMIC CHARACTERISTICS OF THE MEXICAN-ORIGIN POPULATION

This section presents an analysis of the demographic and socioeconomic characteristics of the Mexican-origin Latino population in the state of California¹. It focuses on demographic characteristics of the population related to their geographical concentration, nativity, age, immigrants' length of residency in the state, and socioeconomic variables related to earning and purchasing power.

At the outset, it is important to define some concepts. The terms "Hispanic" and "Latino" are used interchangeably to refer to residents of the United States who can trace their ancestry, nationality group, or country of birth to the Spanish-speaking regions of Latin America and the Caribbean. Following this definition, Hispanics of Mexican origin are those who trace their ancestry, nationality group or country of birth to Mexico.

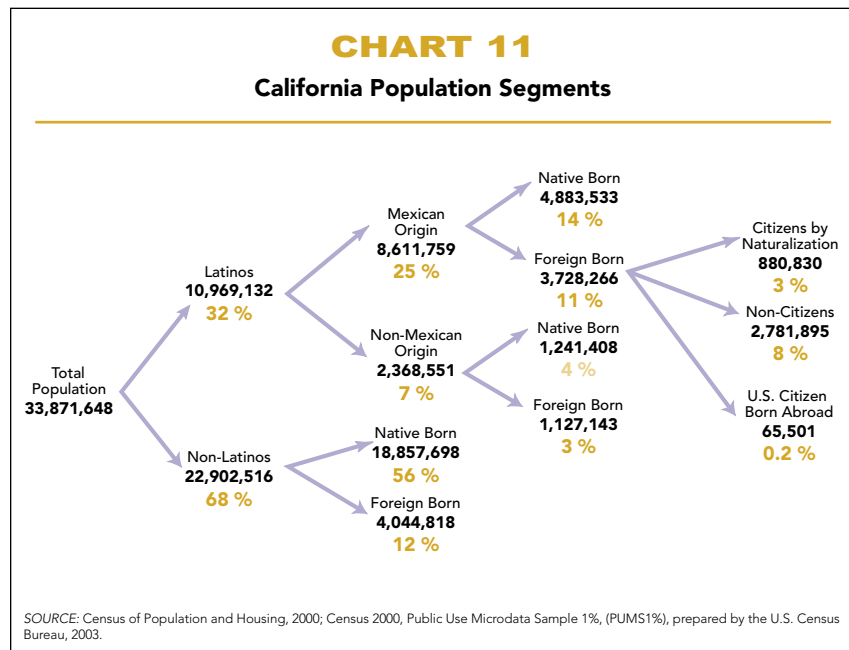
The report examines both foreign-born Hispanics and native-born Hispanics of Mexican origin. It is important to note that after qualifying for some legal requirements established by the Bureau of Citizenship and Immigration Services of the U.S. Department of Homeland Security, the foreign-born can become U.S. citizens by naturalization. Those who are born outside the United States or its territories but whose parent(s) are U.S. citizens are citizens via the jus sanguineus principle. In this report, the foreign-born population

includes both documented and undocumented immigrants. We do not separate this population because at present there is no reliable method to determine the size and distribution of the undocumented population.

POPULATION

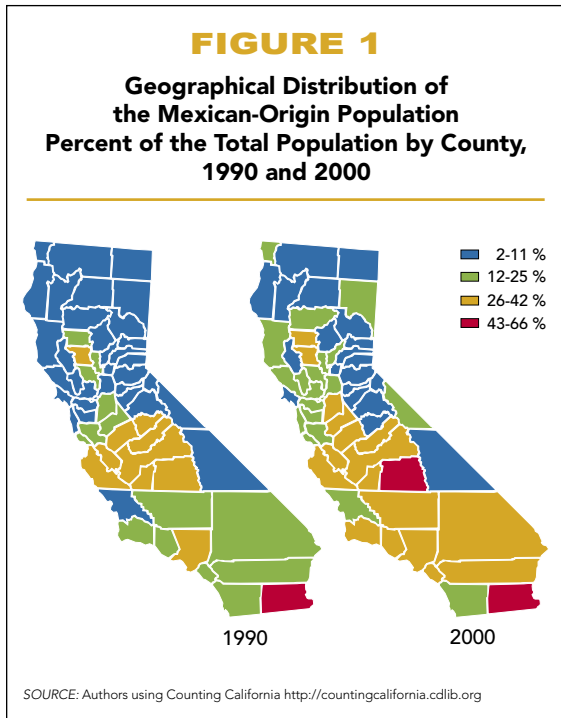
The Mexican-Origin Population in California

California is one of the most ethnically diverse states in the nation. With the foreign-born population comprising 26 percent of the entire population, it has more than twice the number of foreign-born residents than New York — the state with the second



largest foreign-born resident population. California is also the state with the largest Hispanic population in the United States. In 2000, about one-third of its total state population was of Hispanic descent, and

¹ The analysis is based on the 2000 Public Use Microdata Sample 1 percent (PUMS1%) prepared by the U.S. Census Bureau. These data sets contain individual records (non-tabulated data) of the characteristics for a 1 percent sample of the population and the housing units.

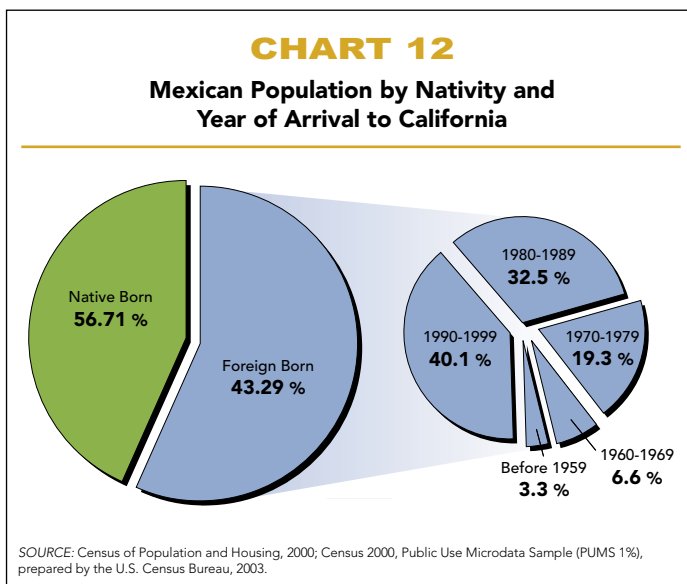


This population is geographically distributed throughout the state. In 2000, the highest concentration of Mexican-origin residents was in Southern California, the San Joaquin Valley and parts of the southern border and Central Coast regions. In addition, the Mexican-origin population has increased substantially in other regions. For instance, in 1990, the Hispanic population of Mexican origin in the northern region of the state was 5 percent, however by 2000, it increased to 15 percent (Figure 1). In part, this is because of the arrival of new immigrants. Of the state's total Mexican-origin population, approximately 17 percent arrived during the 1990s, an increase of approximately 1.4 million new immigrants added to the more than 2 million that arrived before 1990 (Chart 12).

The great majority of Mexican immigrants that arrived in California between the 1980s and the 1990s are not U.S. citizens even though most have been in California for longer than the five-year period most immigrants must wait before becoming U.S. citizens (Chart 13). Mexican immigrants have traditionally lagged behind other immigrants in their naturalization process. This is due to lower education rates and a lack of financial resources that helps facilitate the naturalization process, most specifically access to immigration attorneys.

of these almost 79 percent are of Mexican origin. In 2000, California's native and foreign-born population of Mexican origin exceeded 8 million people, making it the second largest demographic group, just behind the non-Hispanic white population. The Mexican foreign-born population represents 11 percent of the total state population and more than 75 percent of the total foreign-born Hispanic population (Chart 11).

Most of the foreign-born population is at the pinnacle of their productive adult life (40% of females and 42% of males are between the ages of 20 and 39), while a vast majority of the native-born Hispanic population of Mexican origin, both female and male, is below 10 years of age. Many of these are children of recent immigrants who, within a decade, will be an important component of California's labor force (Chart 14).



Labor

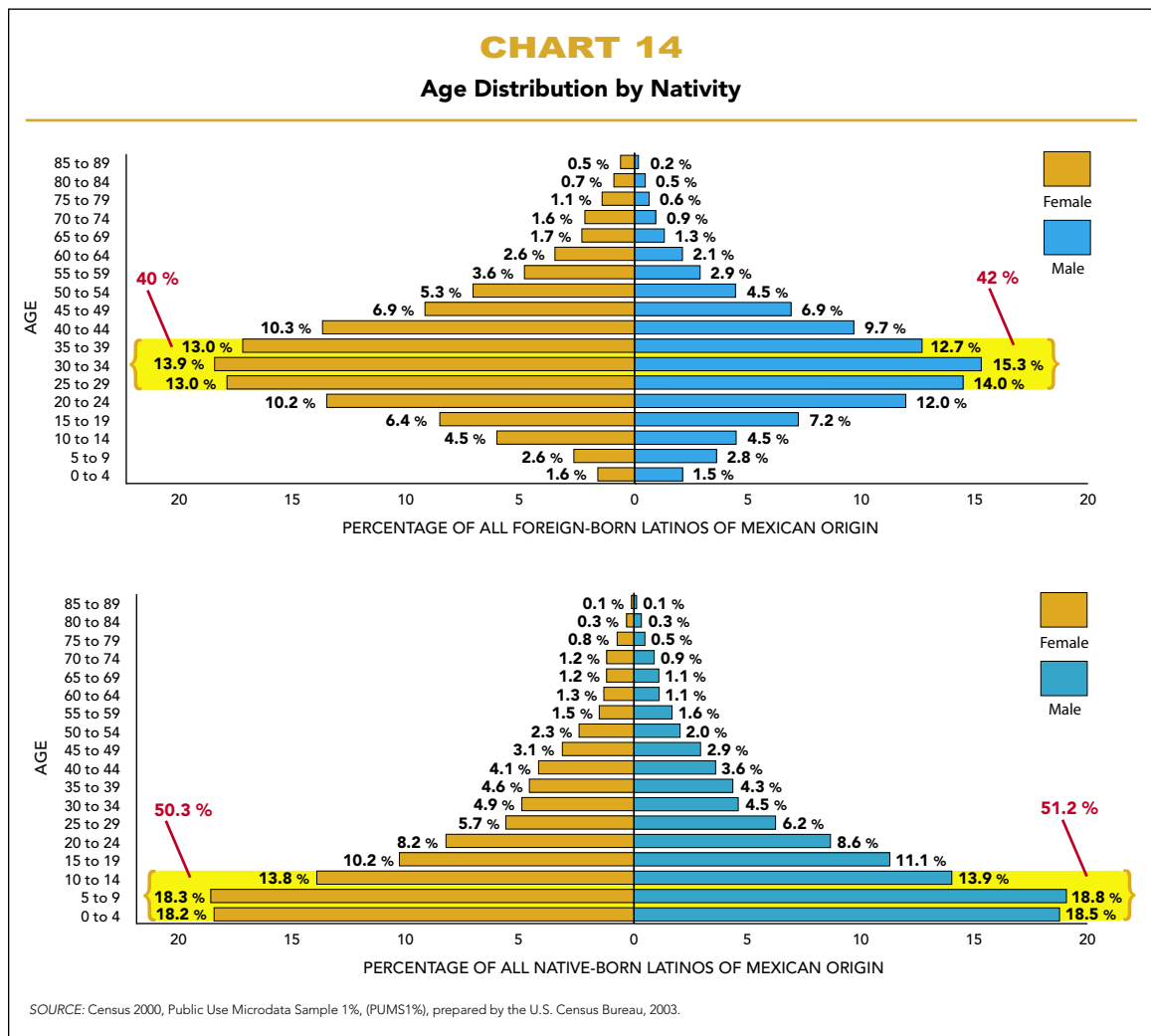
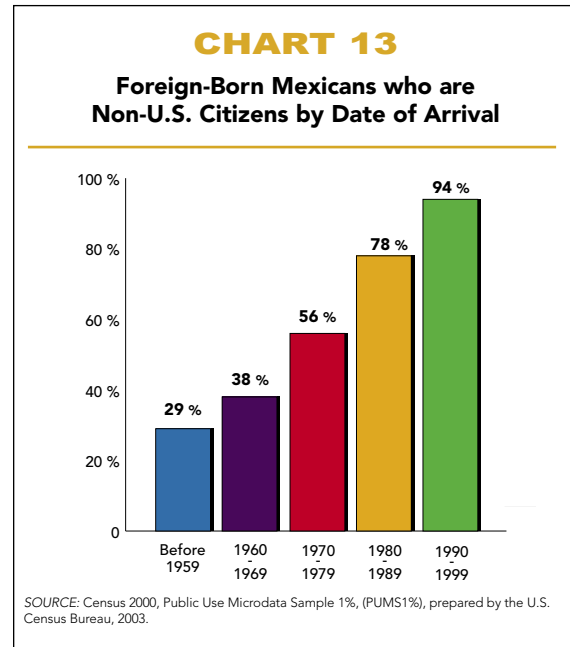
Household worker composition does not vary substantially between the foreign-born and native-born populations. Nevertheless, foreign-born households are more likely to have three or more workers in the family than are native-

born households (Chart 15). However, the native-born population has slightly higher employment rates: 55 percent of the native-born population is employed compared to 52 percent of the foreign-born population (Chart 16).

Most of the male Mexican-origin employed population works in the manufacturing and construction industries, while most of their female counterparts are employed in the educational, health, and social services industries (Chart 17).

Purchasing Power

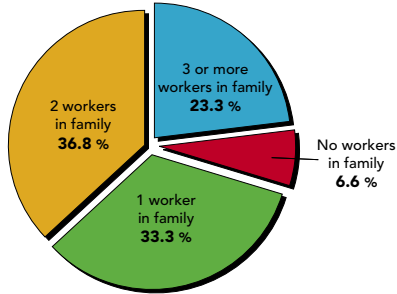
The objective of this section is to estimate the purchasing power of Mexican immigrants by arrival cohorts.² Immigrants' purchasing power is important not only for government officials but also for



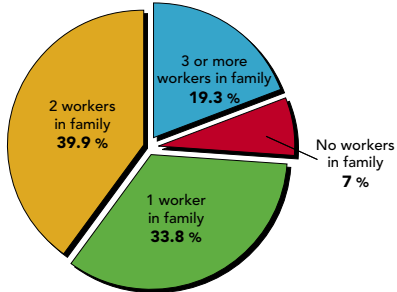
² In this section we use a modified version of the methodology developed by Jeffrey Humphreys of the University of Georgia that measures the buying power of minority groups. In general, Humphreys (2003) estimates buying power by first calculating disposable personal income and then allocating that estimate among ethnic/racial groups. In this report, instead of allocating disposable personal income among ethnic/racial groups, it is allocated among arrival cohorts of Mexican immigrants.

CHART 15
Household Worker Composition

WORKERS IN FOREIGN-BORN MEXICAN HOUSEHOLDS



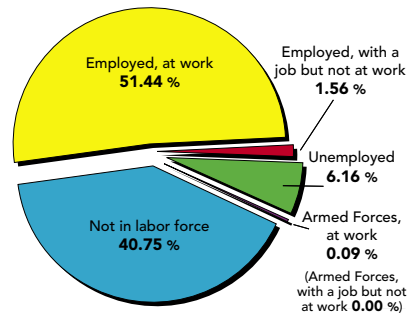
WORKERS IN NATIVE-BORN MEXICAN HOUSEHOLDS



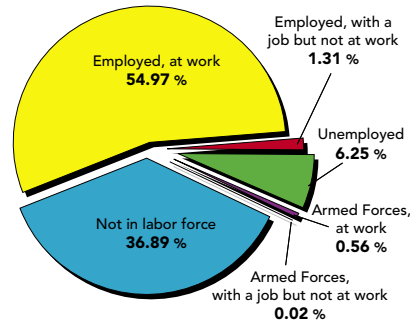
SOURCE: Census 2000, Public Use Microdata Sample 1%, (PUMS1%), prepared by the U.S. Census Bureau, 2003.

CHART 16
Employment by Citizenship

EMPLOYMENT STATUS OF FOREIGN-BORN MEXICANS RESIDING IN CALIFORNIA



EMPLOYMENT STATUS OF NATIVE-BORN MEXICANS RESIDING IN CALIFORNIA



SOURCE: Census 2000, Public Use Microdata Sample 1%, (PUMS1%), prepared by the U.S. Census Bureau, 2003.

retailers, service providers, and producers because it provides information that allows them to tailor specific products, advertisements, and services to specific market segments.

Before estimating immigrants' purchasing power, we calculated immigrants' individual income levels. Chart 18 illustrates how income levels increase as immigrants spend more time living in the United States. Immigrants who have been in the United States for more than 10 years have higher incomes than those who have lived in the country less than 10. Only 7 percent of those who have lived less than 10 years in the United States earn more than \$30,000 a year, while 18 percent of those who have lived more than 10 years in the country earn this amount³

(Chart 18). The earning⁴ power of the immigrants who arrived in the 1980s increased \$3.7 billion between their arrival and the following decade. Furthermore, the earning power of immigrants who arrived in the 1990s is projected to double between the years 2000 and 2010.

In order to estimate immigrants' purchasing power we used the most recent estimates (Humphreys 2003) of disposable personal income for California (the total buying power of all groups, regardless of race or ethnicity). According to this model, the foreign-born population's purchasing power for 2000 was approximately \$51.3 billion, while it was estimated to be approximately \$57.2 billion for the native-born population (Table 7).

³ The methodology to allocate this estimate among arrival cohorts used in this case somewhat varies since instead of using population distributions, which assumes that income distribution is proportional to population distribution, we use income distribution among all Californians who are in the labor force. After identifying the share of aggregated income that corresponds to each arrival group, we applied the percentage to the total disposable personal income estimate in order to measure the buying power for each arrival cohort.

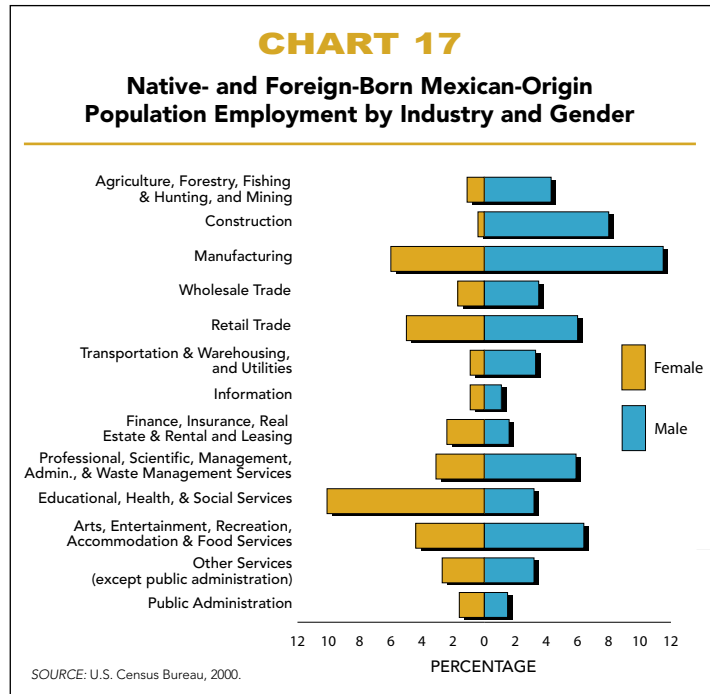
⁴ Note that earning power is different from buying power; earning power measures the amount of income received regularly before deductions for personal income taxes.

As Table 7 shows, the purchasing power for those who arrived in the 1980s almost doubled in a decade. If this trend continues to hold for this decade, the purchasing power for those who emigrated from Mexico in the 1990s would be approximately \$27 billion in 2010.

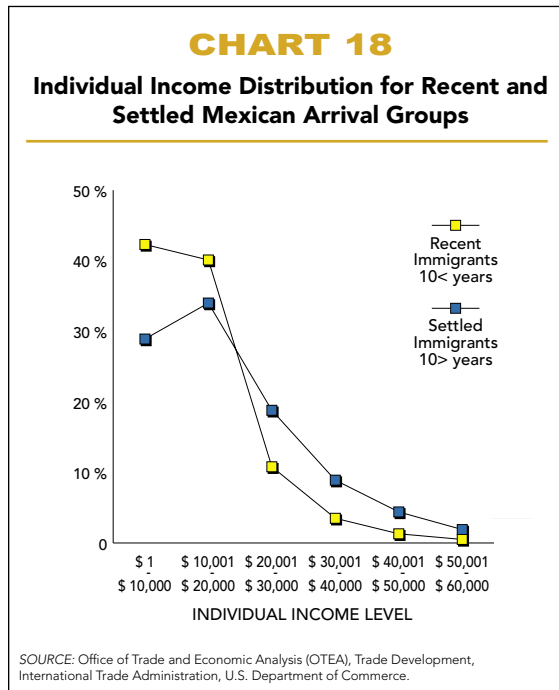
Poverty Level and Social Assistance

For the first time since 1970, settled Mexican immigrants (those who have been living permanently in the United States for more than 10 years) are outnumbering recent immigrants by about 790,000 people (Table 8) and the overall poverty rate of Mexican immigrants in the state has dropped.⁵

The sharp increase in immigration of the 1980s and 1990s has leveled off. The volume of recent immigrants approximately doubled from the 1960s to the 1970s, and again from the 1970s to the 1980s (Chart 19). Yet, the amount of new immigrants from 1990 to 2000 was about the same as that



observed in the 1980s (Myers and Pitkin, 2001). In the past, larger numbers of newcomers skewed the economic profile of the entire Hispanic foreign-born population, hiding the fact that poverty rates among immigrants fall substantially the longer they reside in the United States. Contemporary research shows that acculturation and economic mobility occur much quicker in the first generation than previously thought.⁶ For example, 29 percent of new Mexican immigrants who arrived in the 1970s were living below the poverty level in 1980, yet in 1990, only 20 percent were. That rate continued to decline further: in 2000, 16 percent of Mexican immigrants who arrived in the 1970s were living in poverty (Chart 20).



Based on the U.S. Census Bureau's 2000 Public Use Microdata Sample 1% (PUMS1%), we estimated the proportion of Hispanics of Mexican origin who receive public assistance⁷ given their citizenship status. The overall pattern is that regardless of citizenship status, the proportion of the foreign-born population who receive social assistance is quite small and does not vary substantially among different cohorts or the native-born population (Chart 21).

⁵ Poverty decrease identified and documented by Dowell Myers (2004). Forecasts of poverty drop was first documented in January 2001, before Census 2000 results for poverty and immigration had been published <http://www.usc.edu/schools/sppd/research/popdynamics/>

TABLE 7**Purchasing Power of the Foreign- and Native-Born Mexican-Origin Population**

	Purchasing Power 1990	Purchasing Power 2000
Native Born	31,932,855,981	57,276,835,220
Foreign Born	22,067,480,061	51,350,808,899
1970s Arrivals	11,447,670,501	16,963,373,209
1980s Arrivals	10,619,809,560	20,652,400,843
1990s Arrivals	NA	13,735,034,847

SOURCE: Authors using data from Jeffrey Humphreys and Census 2000, Public Use Microdata Sample 1%, (PUMS1%), prepared by the U.S. Census Bureau, 2003.

COSTS OF IMMIGRATION

There have been two central issues regarding the impact of immigration. The first is concerned with how many undocumented immigrants reside in a particular state. The second refers to their effect on public expenditures and revenues and the economy in general at the local, state and federal level. Several studies have tackled these questions; however, there are important methodological and theoretical issues that question their validity. For instance, some studies include in their calculations the costs of educating native-born children of documented and undocumented immigrants. This is confusing because such children are officially U.S. citizens. Moreover, children who today consume services such as education and health will become

contributing taxpayers tomorrow. Thus, gauging their financial impact requires using a dynamic approach that incorporates immediate expenses and long-term revenues. Such an analysis is well beyond the scope of this report (see Smith & Edmonston 1997).

Other issues such as the impact at federal, state and local levels are important in determining the overall effect of immigrants on the economy. For example, at the national level, the Center for Immigration Studies (Camarota 2004) finds that the net fiscal deficit for the federal government is \$2,700 per illegal household. The Center for Immigration Studies argues that the primary reasons that undocumented immigrants create a fiscal drain are associated with their low levels of education and income in addition to the costs of undocumented immigrants' native-born children. The Urban Institute, by contrast, estimated that immigrants generate significantly more in taxes paid than the cost in services received when all levels of government are considered together (Fix & Passel 1994). Moreover, a recent study (Mohanty, et al. 2005) shows that national adjusted per capita health care expenses of immigrants were 55 percent lower than those of US-born individuals (\$1,139 vs. \$2,546). According to Mohanty, et al. (2005), when

these expenditures are broken down by race/ethnicity, Hispanic immigrants are the group who generate the least adjusted per capita health related expenses at the national level (\$962) while non-Hispanic white immigrants generate the most (\$1,747).

In order to provide an estimate of the costs of immigration to California this report provides a

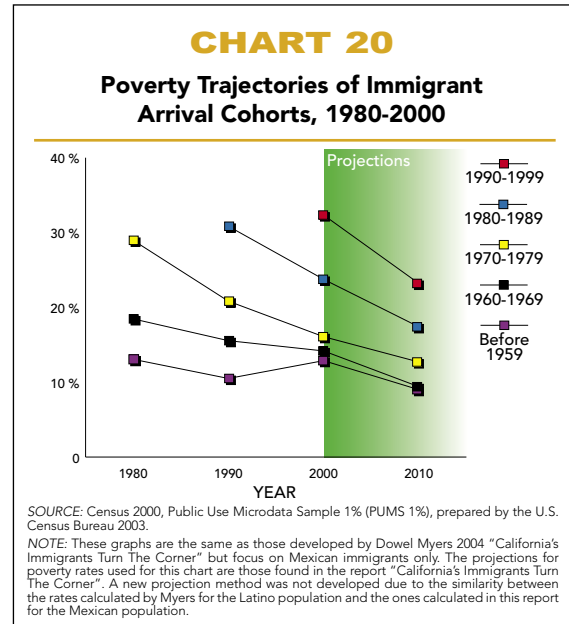
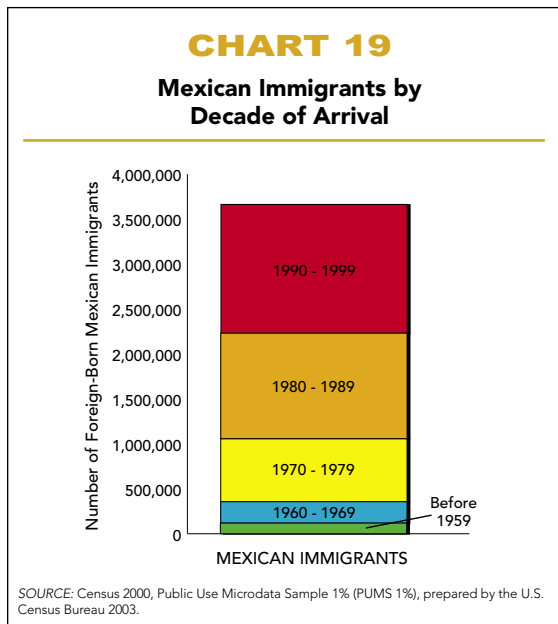
TABLE 8**Breakdown of Settled and Recent Immigrants**

	1980	1990	2000
Settled	510,000 (39%)	1,250,665 (48%)	2,258,885 (61%)
Recent	784,800 (61%)	1,355,003 (52%)	1,469,341 (39%)

SOURCE: Census 2000, Public Use Microdata Sample 1%, (PUMS1%), prepared by the U.S. Census Bureau, 2003.

⁶ Myers, Dowell 2005 and Waters & Jiménez 2005.

⁷ Public assistance income includes General Assistance and Temporary Assistance for Needy Families (TANF).

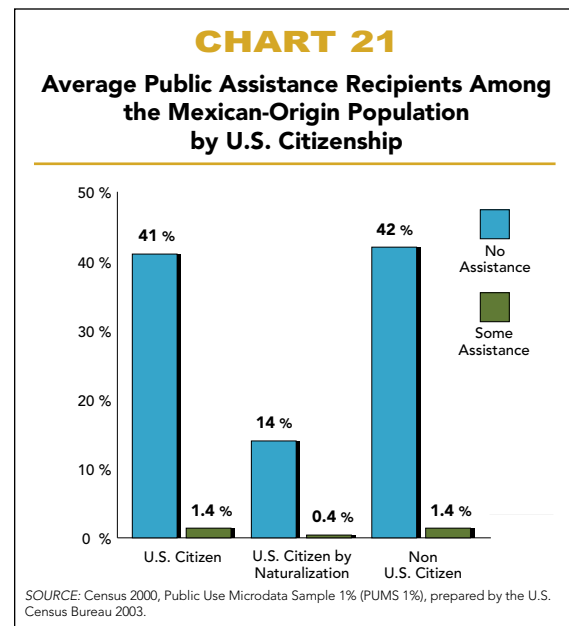


one-year snapshot of how households with at least one immigrant contribute revenues and withdraw resources from the treasury of California. It is worth highlighting that these estimates should be used with care, and that such numbers do not tell us what the final fiscal impact of immigrants and their descendants will be over time.

To facilitate the cost analysis, we used the average cost figures of a Latin American immigrant household⁸ estimated by the National Academy of Sciences (Smith & Edmonston 1997). According to the Academy, the average Latin American immigrant household, regardless of citizenship status or country of origin, represented a net fiscal cost of \$128 a year for the local and state level⁹. Based on this estimate, California's costs related to immigration is about \$179.2 million a year given that, according to the 2000 U.S. Census, there were approximately 1.4 million households in California with at least one Mexican immigrant. This total, it must be emphasized, does not capture the long-term effects of education. That is, it does not estimate the costs of educating children today nor the long-term effects that these children will make to the economy. Table 9 shows the expenditures, revenues, and average fiscal balances

for immigrant-headed households regardless of their U.S. citizenship status.

The National Academy of Sciences concludes that there are three central causes for the negative fiscal impact of immigrants at the state and local levels. First is the fact that immigrants have more children than native households on average and therefore



⁸ Data is not available for Mexican Immigrants in California, only for Latin American immigrants. However, according to Smith & Edmonston's 1997 report, "Mexico [is] the predominant source of immigrants into the United States" (p 37). Thus, this data serves as the closest approximation of Mexican immigrants' local and state level costs.

TABLE 9**California Local and State Expenditures, Revenues and Fiscal Balance by Immigrant-Headed Households (Dollars per California Household, June 2004)**

	Household Cost (in Dollars)	Households With at Least One Mexican Immigrant (1.4M)
Expenditures ^a		
Local Expenditures	5,504	7,705,600,000
State		
Transfers to Households	1,897	2,655,800,000
All Other State Expenditures	1,058	1,481,200,000
Total	2,955	4,137,000,000
Revenues ^b		
Local		
Property Tax	931	1,303,400,000
All Other	5,244	7,341,600,000
Total	6,175	8,645,000,000
State		
Income Tax	744	1,041,600,000
Sales Tax	568	795,200,000
All Other	844	1,181,600,000
Total	2,156	3,018,400,000
Average Fiscal Balance		
Local	671	939,400,000
State	-799	-1,118,600,000
Total Cost	-128	-179,200,000

SOURCE: TRPI with data from Smith and Edmonston 1997; figures are adjusted upward to reflect June 2004 prices as measured by the CPI-U Index

^a Local share of outlays for public safety, public works, general health, recreation and the local share of general assistance. State expenditures include state share of outlays for state's share of transfers to households (Medi-Cal health coverage and AFDC and SSI income transfers)

^b Property tax and a tax on utilities ("all other"); state revenues include state income tax and sales taxes through various excise taxes ("all other")

consume more educational services. Second, immigrant households are poorer than native households on average and therefore receive more local- and state-funded income transfers. Finally, immigrant households have lower incomes than native households on average, and thus pay lower state and local taxes (Smith & Edmonston 1997: 292-293).

The overall economic effect of immigration on California is unknown. While the available figures suggest that it results in a fiscal deficit of \$179.2

million to the state of California, this, however, does not take into account other significant fiscal contributions. These include contributions to Social Security such as the contributions that immigrants make — including the undocumented—that go directly to the federal government. As of July 2002, the Social Security Administration's Earnings Suspense File (ESF)¹⁰ "contained approximately 236 million wage items totaling about \$374 billion related to the Tax Years (TY) 1937 through 2000 (OIG, 2002:1). California alone contributed 35 percent of the total suspended items, that is, approximately \$131 billion over a 63-year period. In the TY 2000, approximately \$49 billion in wages were added to the ESF nationwide. If we assume the same distribution for the TY 2000 as for the 63-year period, California contributed approximately \$17 billion to the total ESF of the TY 2000. According to the Center for Urban Economic

Development at the University of Illinois at Chicago, undocumented immigrants account for the vast majority of the ESF (Porter, 2005).

Although it is very difficult to know exactly how many undocumented immigrant workers pay taxes, the Social Security Administration assumes that about 75 percent of "other than-legal-immigrants pay payroll taxes" at the national level (cited in Porter 2005) providing the Social Security system with about \$7 billion a year. The CIS estimates that

⁹ 1997 figures were adjusted upward to reflect June 2004 prices as measured by the Consumer Price Index-all Urban Consumers (CPI-U Index), compiled by the Bureau of Labor Statistics.

¹⁰ When an employer's report contains wage reports that include name/Social Security Number (SSN) that do not match Social Security Administration's records, the Social Security Administration performs electronic edits aiming at correcting typographical mistakes or other common mistakes. If these edits still do not result in a match, the wages are placed under the Earnings Suspense File (National Immigration Law Center, 2003).

3.8 million households headed by undocumented immigrants at the national level contributed \$6.4 billion in Social Security taxes in 2002 (Porter, 2005); however, according to the CIS, these contributions do not necessarily reduce the Social Security Administration's deficit. For instance, according to the CIS, a net annual legal immigration of 800,000 persons a year would only create a benefit of approximately 0.77 percent of the Social Security Administration's projected expenditures (Camarota 2005). The CIS's results, however, contrast with a recent National Foundation for American Policy report that found that a moratorium on legal immigration could substantially increase the size of the Social Security actuarial deficit by 31 percent over a 50-year period (Anderson 2005).

Furthermore, an additional factor should be considered in determining the cost of immigration:

the contributions that immigrants make to the economy by taking jobs in certain industries. As Borjas (1999:2) has noted, "certain industries in the country — such as California's agriculture industry — would likely disappear if immigrant labor were not available." These industries are maintained because immigrants accept jobs at wages much lower than what native-born workers would accept. Additionally, during economic recessions, immigration helps to hold down labor costs (McCarthy & Vernez, 1998) and, therefore, hold down prices that consumers pay for goods and services.

When all of this is taken into account, the fiscal deficit described in Table 9 must be seen as only partially accounting for the costs and benefits of immigration; there is no doubt that when incorporating these additional figures, there is a possibility that the deficit would be reduced or even eliminated.

CONCLUSION

The Mexico-California relationship is multifaceted. The bond between Mexico and California interlocks both societies, not only at the historical and cultural level but also at the commercial level. This economic bond is so strong that both societies would suffer if the relationship were weakened or severed. California would suffer substantially because of job losses and Mexico would suffer because emigrants would need employment and social services in the case they returned back home.

This report highlights how immigrants, legal and undocumented, are central to the relationship between Mexico and California. Immigrants contribute greatly to the California economy by holding labor costs down that in turn helps to hold down prices that consumers pay for goods and services. California's employers have been the main

beneficiaries of immigration since immigrants are paid less even though they are as productive as native workers. When all of this is taken into account, the fiscal deficit associated with immigration must be seen as only partially accounting for the costs and benefits of immigration, and there is no doubt that when incorporating these additional figures to the cost-benefit analysis, the deficit would be reduced or even eliminated.

Immigrants are a major factor in this relationship, but they do not determine the overall contours. Commerce, tourism, and foreign-direct investment also help shape this complex relationship. For instance, these areas of the relationship support more than 200,000 jobs that represent approximately 1.5 percent of the total number of payroll jobs in California.

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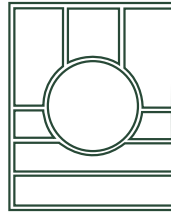
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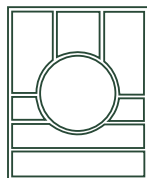
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