SB 345/HB 1219

ECONOMIC AND DEMOGRAPHIC IMPACTS ON INDIANA

A Policy Brief

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As the Indiana Legislature prepares to vote on SB 345/HB 1219, some urgent thought needs to be given as to whether this is a bill that—while making good politics—makes bad policy.

If this law is successful in its stated aim of expelling undocumented immigrants from the state, preliminary calculations show that it will affect various aspects of the economy by levels of 1.8 to 2.6 percent. If it is not successful in driving undocumented immigrants away, it would drive them further underground, increasing both the levels of the informal (i.e. non-tax paying) economy and the probability of exploitation of immigrants by unscrupulous employers.

Although the full effects are difficult to predict due to the limitations of the available data, passage of this bill would potentially:

- Directly and immediately affect up to 153,000 people, or approximately 2.6 percent of Indiana’s population.
- Suddenly increase vacant dwellings on the market by up to 44,000 or about 2 percent of the housing stock.
- Lead to the loss of 87,000 workers, or 2.2 percent of the overall labor force, concentrated disproportionately in the food, manufacturing and construction sectors.
- Reduce the State’s gross domestic product by an estimated $5 billion.
- Decrease personal income in Indiana by roughly $2.3 billion.
- Create a $200 million shortfall in state taxes paid.
Introduction

Immigration is a complex issue, one in which costs are localized while benefits are generalized. It is an issue that is wrapped up in historical myths, and finally, one that arouses all manner of cultural fears. It is, in short, an issue that is so visceral that it has become the poster child for producing laws with unintended consequences.

In this brief we will explore the possible unintended consequences that a bill designed to drive undocumented immigrants away might have on the short- and long-term economic cycles of production and consumption and on the demographics of Indiana. Many of these unintended consequences are the result of common — but false, and even contradictory — beliefs about the characteristics, costs, and effects of migrants. One such belief is that the proportion of the immigrant population has reached intolerable levels. Another is that undocumented immigrants exist in almost total isolation from society at large and so can be removed without significant human or economic costs to the rest of the population.

While a full-scale economic impact study is beyond the scope of this brief, the literature provides significant evidence against many of the common economic assumptions behind this immigration bill.1 A primary assumption is that Americans are losing jobs to illegal immigrants. A related assumption is that employers are hiring them only because they want to pay lower wages rather than because there are no other workers available. However, among the characteristics of an immigrant workforce is that it is complementary: the skills of immigrants almost always complement — rather than compete with — those of native workers.2 This means that a loss of these workers will not result in increased salaries for existing workers, but rather in a net loss of employment for those occupations such as sales and management that rely on the products of immigrant labor. Another assumption is that the demand for social benefits by illegal
immigrants is a net burden for taxpayers. In fact not only are immigrants barred from seeking most social benefits, but they actually use such benefits as are available to them (for example, hospitals) at a lower rate than their presence in the population would suggest.³

If the bill passes, in the short-term businesses will face a shortage of workers, both the supply and the demand for services will shrink, and school enrollment will drop. Tax receipts from income, property, and sales taxes will fall. Construction, an important but ailing engine of the economy, will be hardest hit. This will prolong the current housing crisis by both increasing cost of construction and lowering prices in the housing market due to competition from housing stock abandoned by immigrants.

In the mid-term, the increasing cost of production will either increase prices to the consumer or will drive firms to other states or out of business altogether. Also, many of Indiana’s rural towns and communities that have been revitalized over the past decade by the inflow of foreign-born workers and their families would revert to their previous state of slow — but steady — decline.

In the long-term, Indiana risks having too small a labor force to meet the increasing demand for social services to the elderly or to supply the increasing demand for skilled workers.

**SB 345/HB 1219: Who is Affected?**

As of 2006, the foreign-born population of the State of Indiana was estimated at roughly 265,000, or 4.2 percent of the total population (see Figure 1). Of these, some 95,000 had become naturalized citizens, resulting in approximately 170,000 non-US citizens living in Indiana, accounting for about 2.7 percent of the population.
In general terms, the discussion of immigration is often limited to the Latino population, particularly those from Mexico. This is not surprising, given the composition of immigrants. As shown in Figure 2, in Indiana the percentage of immigrants from Mexico is 39 percent, which is significantly higher than the national figure of 31 percent, although the total Latin American (Mexican plus Other Lat. Am.) share of immigrants is slightly lower in Indiana.

Source: Authors’ calculations based on US Census Bureau. American Community Survey Public Use Microdata Sample (PUMS) 2006
A 2006 Pew Hispanic Center report estimates the undocumented population of Indiana as being between 50,000 and 85,000.\(^4\) The higher figure has been the one used by supporters of the bill and generally adopted by the media. If we accept this figure, it follows that nearly half of the non-US citizens reported in the 2006 American Community Survey would be undocumented.\(^5\)

It is important to understand that an anti-illegal immigration bill is not only going to affect the undocumented. In fact, immigrant families are commonly composed of a mix of legal permanent residents, undocumented residents, and US citizens. Family disintegration is not generally a good option for anyone, least of all for immigrants, who not only tend to hold more tightly to traditional family values but who also, as immigrants, have to rely more heavily on smaller social networks. If one of the members finds it necessary to leave, it is very likely that the entire family will move with him or her.

The multiplier factor of an exodus because of a crackdown on illegal immigrants can be estimated at 1.8,\(^6\) so if the bill were successful, Indiana would suffer a population decrease of about 153,000 people, or approximately 2.6 percent of the state’s population. This means that for every five persons who migrate to another state, we will lose an additional four family members.

**Impact on Housing**

As with families leaving the state, the houses where they live will be left vacant, adding to the current stock and thus exacerbating the current housing and credit crisis in Indiana. There are currently an estimated 2,757,000 households in the state, of which 88,000 include at least one non-US citizen resident. If half of the non-US citizens are undocumented and forced to leave, the stock for sale or for rent would suddenly increase by 44,000 households, or about 2 percent.
The current housing situation in the majority of the state can be characterized as one of weak demand with an increasing number of foreclosures—further inflating available supply and depressing prices.

As a practical matter, the situation might not be so dire if the immigrants were vacating housing for which there is a great demand. Immigrants are not concentrated evenly across the state, or even in larger metropolitan areas. Rather, they are concentrated in relatively few locales, most of which would have a difficult time coping with an increase of vacant properties. South Bend, for instance, currently has a seven percent vacancy rate, and so would suffer disproportionately from a sudden increase of available housing rising to an estimated 9.2 percent, since much of it would be destined for abandonment. The situation in many of the State’s smaller towns would be just as dire.

**Impact on the Labor Market**

Similarly, passage of the bill would result in a shortage of labor in important economic sectors, which would have serious consequences on the cost of businesses in Indiana. Undocumented immigrants — like most immigrants — are here because there are jobs available, and there is a demand for their type of labor.

About 174,000 workers in Indiana were part of families with at least one non-US citizen member. If we continue with the same assumption about the rate of undocumented workers, passage of SB 345/HB 1219 would cause about half of these workers to leave Indiana for other states. This implies that the labor force would need to find 87,000 new employees to do most of the work that native-born Hoosiers seem not to want. This is equal to losing 2.2 percent of the labor force in a few short months. It is obvious that the short-term implication would be a slowdown in the economy. Although some would argue this is just a temporary
adjustment, it is difficult to see how the economy could replace these workers easily, or how it would deal with the loss of businesses who were priced out of the market, or forced to move to other states. Arizona’s example might be instructive: within six weeks of the enactment of a similar law, the Legislature had begun to explore the (unrealistic) possibility of creating a guest worker program.\textsuperscript{8}

Obviously, the industries that tend to hire non-US citizens are the ones that are going to be most affected. Figure 3 shows the percentage of the labor force belonging to families with non-US citizen members. The most dynamic industrial sectors in Indiana — Food & Recreation, Manufacturing, and Construction—hire non-US citizens and their families in proportions higher than their representation in the population.\textsuperscript{9} However, non-U.S citizens represent more than six percent of the blue-collar jobs in each of the Food & Recreation, Manufacturing, and Construction sectors.

Anti-immigrant legislation may also have the unintended effect of siphoning off high-skilled jobs in addition to low-skilled jobs. If Indiana becomes perceived as an “anti-immigrant” state, investment from industries that rely on immigrant human capital might be jeopardized. For instance, as Figure 3 shows, the sector representing “Professionals, Science, and Mathematics” — the one which counts computer engineers, doctors, university professors, and the like — hires a great percentage of non-US citizens or their family members (5.6 percent), almost as many as the construction industry.
Impact on the Economy

Were Indiana’s economy to be affected by the loss of 2.6 percent of the population, two percent of housing, and 2.2 percent of the workforce (without counting collateral job losses), the impact of this law would be significant.

The State’s gross domestic product was calculated at some $248.9 billion in 2006. If we assume that Indiana would suffer a loss of two percent from the combination of factors listed above, we could expect to see a drop of some $5 billion in the State’s GDP.

Similarly, the personal income of all people who were living in families with at least one non-citizen member was some $4.6 billion — which accounts for 3.25% of Hoosiers’ total income. If we continue to assume that some 50 percent of those were either undocumented, or part of a mixed-status family, then the loss would be about $2.3 billion.
If we look at State taxes, and continue to assume a two percent reduction in income, we find that the Indiana would potentially lose roughly $192 million in tax revenue.\textsuperscript{10}

**Demographic Profile of the Working Population**

Immigrants are important to the labor pool because the population is aging. Immigrant workers are almost 10 years younger than the native-born workers and 14 years younger than naturalized citizens.\textsuperscript{11}

At the national level, the major source of population growth is expected to be from the foreign-born, particularly from Latinos. By 2050, 19 percent of Americans will be foreign-born, and Latinos are projected to be 29 percent of the population.\textsuperscript{12} If Indiana chooses not to be part of this demographic reality, it is destined to face the burden of an increasingly aging population, the shrinkage of its workforce, and a slow down of the state’s economy.

As it stands today, the evidence shows that the future pool of growth for Indiana’s labor force is in the Latino population. The working-age population of Indiana is projected by the Census Bureau to start decreasing in about 10 years (see Figure 4), and the only group that demonstrates an above-replacement fertility rate are Latinos. This implies that the percentage of the working-age population that is Latino will go from 3.4 to 10.2 percent between 2000 and 2030. Without Latinos, the working population will decrease 3.8 percent between 2000 and 2030, instead of increasing by 3.2 percent.
Final Considerations

Our calculations show that passage of this bill would have serious economic and demographic effects. The bill will not only target the undocumented population but also the US citizens and the legal residents who live with them. Thus, the bill will directly and immediately affect some 153,000 people, or approximately 2.6 percent of the Indiana’s population.

Economically, the housing stock, labor market, and state revenue will be affected. The State’s GDP will see a decrease of an estimated $5 billion, compounded with a drop in personal income in Indiana of roughly $2.3 billion.

In reality, this bill will not only affect all undocumented immigrants, and not only all immigrants, but rather all Latinos in Indiana. While not all Latinos are immigrant — much less undocumented — the general perception is that “Latinos = Immigrant = Illegal”. Whether or not this is the intention of the Legislature, Latinos have already begun reporting an increasing unease in living in the State. This is based on an increase of questions about migration status by service
providers, challenges to the authenticity of identity documents by the Department of Motor Vehicles, and questionable traffic stops by police — all seemingly based on name or physiognomy. While Indiana has had a thriving Latino community in Lake County for almost 100 years, legislation such as this could put in jeopardy one of the few sources of future demographic and economic growth.\(^{14}\)

In our opinion, the effects of SB 345/HB 1219 are prime examples of the dangers of the unintended consequences inherent in immigration legislation.


\(^{5}\) Authors’ calculations based on U.S. Census Bureau. American Community Survey Public Use Microdata Sample (PUMS) 2006.

\(^{6}\) Authors’ calculations based on U.S. Census Bureau. American Community Survey Public Use Microdata Sample (PUMS) 2006, calculated by the ratio of people living in mixed-status families to the non-US citizen population estimated to be undocumented (85,000, or 50 percent).

\(^{7}\) Authors’ calculations based on U.S. Census Bureau. American Community Survey Public Use Microdata Sample (PUMS) 2006.


\(^{9}\) Authors’ calculations based on U.S. Census Bureau. American Community Survey Public Use Microdata Sample (PUMS) 2006.

\(^{10}\) This is calculated from taking two percent of the tax income for the last four available quarters (2006:4-2007:3) of $14,281 million, minus taxes from corporations ($4,690 million), leaving a subtotal of $9,590 million.

\(^{11}\) Authors’ calculations based on U.S. Census Bureau. American Community Survey Public Use Microdata Sample (PUMS) 2006.


\(^{13}\) According to the Census Bureau’s 2005 ACS, fully 59 percent of Latinos in Indiana are US-born, while 6.6 percent are foreign-born but US citizens. Only 34.4 percent are legal permanent residents or undocumented. Among Latino children, fully 86 percent are native born.

\(^{14}\) According to the U.S. Census Bureau, at approximately 300,000, Indiana’s Latinos currently account for 4.8 percent of the population, but they were responsible for 40 percent of the State’s growth since 2000.