

Unintended Consequences:

The Impact of Stepped-Up Immigration Enforcement on the Los Angeles Economy



Los Angeles County Economic Development Corporation

Issue Brief

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February 2008



*Economic Vitality,
Trade & Jobs*

Background: Micro Solutions Enterprises (MSE), a manufacturer and distributor of toner cartridges, inkjets and thermal transfer ribbons, had its Van Nuys facility raided on February 7th by government agents performing an immigration enforcement investigation. Business was interrupted for several hours and numerous employees were detained.

Avi Wazana, the company's CEO insists his firm is "devoted to lawful employment practices." Indeed, MSE has been screening every new employee electronically with Homeland Security, though the terms of the verification program prohibit the company from using it to check existing employees. Wazana points out that "the reality and circumstances in places like Southern California" include a labor force predominantly made up of immigrants, and a "manufacturer of any size in business for enough years is a potential target for an audit."

Introduction: Increased federal enforcement focused on improperly documented workers poses a significant threat to large segments of the Los Angeles economy. The number of improperly documented workers in the county is believed to be high, with 50 percent or more of all workers in certain industries affected. This report estimates the jobs, wages and taxes at stake in three at-risk sectors: fashion, food processing, and furniture.

Numerous other industries in Los Angeles with large numbers of suspected improperly documented workers would be affected by the heightened enforcement, notably restaurants and bars, hotels, yard maintenance and construction. We focus here on fashion, food processing and furniture for four reasons. First, these industries are widely believed to have a high level of improperly documented workers. Second, manufacturing jobs tend to create more indirect employment than service sectors jobs, so their loss will be felt more acutely as the secondary effects ripple through the economy. Third, manufacturing operations are more susceptible to relocation out-of-state and out-of-country than those in the service sector. And fourth, the concentration of fashion, food processing, and furniture firms in Los Angeles makes them particularly important to the local economy.

For each of the three selected sectors, we report the number of firms, employment and wages in Los Angeles in 2006, the most recent year available. Next we use our customized model based on RIMS II multipliers from the US Department of Commerce, Bureau of Economic Analysis to estimate the additional indirect employment and wages sustained by the ongoing operations of the firms in the three direct sectors. We report separate estimates for the city and for the county.

Finally, we will present estimates of the cost to the local economy if each sector were to contract by 15%, 30%, 50%, or disappear (relocate) entirely. These estimates highlight the stakes involved with stricter immigration enforcement in just three industries in Los Angeles. More important, they also reveal the unintended consequences of broader enforcement.

Table 1 below shows the number of business establishments in various sectors of the fashion, food, and furniture industries in LA County and LA City during 2006¹.

Table 1 Establishments in LA County and LA City, 2006			
Industry	NAICS	Establishments	
		LA County	LA City
Fashion			
Textile Mills	313	358	229
Apparel Manufacturing	315	3,249	2,276
Footwear Manufacturing	3162	35	20
Other Leather & Allied Product Manufacturing	3169	44	17
Apparel, Piece Goods, & Notions Merchant Wholesale	4243	2,191	1,408
Toiletries and Cosmetics Manufacturing	32562	84	33
Total		5,960	3,982
Food			
Agriculture, Forestry, Fishing and Hunting	11	435	135
Food Manufacturing	311	1,107	471
Beverage and Tobacco Product Manufacturing	312	70	32
Farm Product Raw Material Merchant Wholesalers	4245	24	10
Poultry and Poultry Product Merchant Wholesalers	42444	29	17
Fish & Seafood Merchant Wholesalers	42446	151	78
Meat & Meat Product Merchant Wholesalers	42447	109	46
Fresh Fruit and Vegetable Merchant Wholesalers	42448	263	182
Total		2,187	969
Furniture			
Furniture & Related Product Manufacturing	337	956	393
Textile Furnishings Mills	3141	134	73
Furniture & Home Furnishing Merchant Wholesalers	4232	658	240
Lighting Fixture Manufacturing	33512	104	37
Total		1,852	743
Grand Total		9,999	5,693

Source: CA Labor Market Information Division, QCEW Series

In LA County, the total number of establishments in the fashion industry reached 5,960 during 2006, while number of establishments in the food and furniture industries was 2,187 and 1,852 respectively. Adding those figures together, there were 9,999 establishments at risk in Los Angeles County in the three subject industries during 2006.

In 2006, LA City had 3,982 establishments in the fashion industry, 969 establishments in the food industry, and there were 743 companies in the furniture industry. Thus, in 2006, in the City of LA, there were 5,693 establishments in all three at-risk industries taken together.

¹ The QCEW data are comprehensive and reliable. The most recent QCEW data available cover 2006.

Now, let's see how many people actually work in these industries in LA County and LA City. Table 2 shows the 2006 employment levels in the fashion, food, and furniture industries.

Table 2 Employment in LA County and LA City, 2006			
Industry	NAICS	Employment	
		LA County	LA City
Fashion			
Textile Mills	313	10,135	5,831
Apparel Manufacturing	315	59,453	41,523
Footwear Manufacturing	3162	843	443
Other Leather & Allied Product Manufacturing	3169	1,538	430
Apparel, Piece Goods, & Notions Merchant Wholesale	4243	19,142	10,645
Toiletries & Cosmetics Manufacturing	32562	4,873	2,967
Total		95,984	61,838
Food			
Agriculture, Forestry, Fishing and Hunting	11	7,693	2,782
Food Manufacturing	311	42,613	18,556
Beverage and Tobacco Product Manufacturing	312	5,429	2,693
Farm Product Raw Material Merchant Wholesalers	4245	204	56
Poultry and Poultry Product Merchant Wholesalers	42444	1,443	988
Fish & Seafood Merchant Wholesalers	42446	2,184	1,557
Meat & Meat Product Merchant Wholesalers	42447	2,881	1,586
Fresh Fruit and Vegetable Merchant Wholesalers	42448	6,170	4,406
Total		68,618	32,624
Furniture			
Furniture & Related Product Manufacturing	337	23,461	6,710
Textile Furnishings Mills	3141	3,745	1,538
Furniture & Home Furnishing Merchant Wholesalers	4232	9,517	2,392
Lighting Fixture Manufacturing	33512	2,825	731
Total		39,548	11,371
Grand Total		204,150	105,832

Source: CA Labor Market Information Division, QCEW Series

In Los Angeles County, the total number of people employed in the fashion industry was 95,984 workers. Total 2006 employment figures for the food and furniture industries were 68,618 and 39,548 people respectively. Hence, all three industries together employed 204,150 people in LA County that year.

The fashion and food industries employed 61,838 and 32,624 people in LA City during 2006. Also that year, there were 11,371 people working in the furniture industry. In the City of LA, the total number of employees in those three industries was 105,832 workers in 2006, roughly half the LA County's total for the same time period.

Total wages earned by employees working in the fashion, food, and furniture industries in LA County and LA City are shown in Table 3. [Figures for wages are expressed in millions of 2006 dollars.]

Table 3 Wages in LA County and LA City, 2006			
Industry	NAICS	Wages (\$millions)	
		LA County	LA City
Fashion			
Textile Mills	313	\$283	\$169
Apparel Manufacturing	315	\$1,666	\$1,168
Footwear Manufacturing	3162	\$22	\$11
Other Leather & Allied Product Manufacturing	3169	\$44	\$15
Apparel, Piece Goods, & Notions Merchant Wholesale	4243	\$854	\$440
Toiletries & Cosmetics Manufacturing	32562	\$209	\$138
Total		\$3,079	\$1,940
Food			
Agriculture, Forestry, Fishing and Hunting	11	\$206	\$74
Food Manufacturing	311	\$1,853	\$709
Beverage and Tobacco Product Manufacturing	312	\$307	\$158
Farm Product Raw Material Merchant Wholesalers	4245	\$9	\$3
Poultry and Poultry Product Merchant Wholesalers	42444	\$49	\$34
Fish & Seafood Merchant Wholesalers	42446	\$92	\$64
Meat & Meat Product Merchant Wholesalers	42447	\$102	\$50
Fresh Fruit and Vegetable Merchant Wholesalers	42448	\$289	\$199
Total		\$2,907	\$1,291
Furniture			
Furniture & Related Product Manufacturing	337	\$780	\$204
Textile Furnishings Mills	3141	\$124	\$46
Furniture & Home Furnishing Merchant Wholesalers	4232	\$446	\$107
Lighting Fixture Manufacturing	33512	\$116	\$33
Total		\$1,466	\$390
Grand Total		\$7,452	\$3,620

Note: Details may not add to totals due to rounding

Source: CA Labor Market Information Division, QCEW Series

In 2006, fashion industry workers earned more than \$3 billion in LA County. During the same year, employees in the county's food and furniture industries earned \$2.9 billion and nearly \$1.5 billion respectively. Taking all three industries together, total wages for all employees in LA County were about \$7.45 billion.

The right hand column of Table 3 illustrates total earnings of the City's employees in the fashion, food, and furniture industries. Total 2006 wages in the fashion industry reached almost \$2 billion. Food industry workers earned roughly \$1.3 billion, and employees in

furniture industry were paid \$390 million in 2006. Hence, within the boundaries of LA City, total earnings of employees of the three at-risk industries were more than \$3.6 billion.

Here the LAEDC estimates the number of indirect and total employees working in the county's fashion, food, and furniture industries. The county estimates are presented in Table 4 as well as the LA City share of each industry.

Table 4 Total Employment in LA County, 2006				
Industry	Direct	Indirect	Total	LA City Share
Fashion	95,984	128,000	224,000	64%
Food	68,618	118,000	187,000	47%
Furniture	39,548	45,000	84,000	29%
All Industries	204,150	291,000	495,000	52%

Note: Details may not add to totals due to rounding
Source: CA Labor Market Information Division, QCEW Series; LAEDC

The first column of Table 4 recaps (from Table 2) the number of actual, or direct, employees working in the three industries during 2006. There were a total of more than 204,000 direct workers during that year.

By applying RIMS II multipliers² for each specific industry sector the LAEDC estimated the number of indirect employees working in other industries in LA County whose jobs are supported by the direct employees in the county's fashion, food, and furniture industries. In particular, the indirect workers are employed by LA County business firms that sell goods and services (for example, insurance, paper supplies, and production machinery) to the direct firms in the county's fashion, food, and furniture industries and also by firms that sell consumer products to the employees of those industries.

As shown in the second column of Table 4, during 2006 the 95,984 LA County fashion industry workers supported an estimated 128,000 indirect jobs in the county. That same year, the 68,618 food industry workers supported about 118,000 indirect jobs, and the 39,548 workers of the furniture industry supported roughly indirect 45,000 jobs in LA County.

The third column of Table 4 contains the total numbers of direct and indirect employees related to the fashion, food and furniture industries located in LA County. Adding the direct and indirect figures, we see that a total of 224,000 jobs in the county depend upon the fashion industry, while 187,000 and 84,000 jobs are related to food and furniture industries respectively. Altogether, the jobs of about 495,000 employees (both direct and indirect) in LA County depend upon the fashion, food and furniture industries for their livelihood.

² The LAEDC uses Regional Input-Output Modeling System (RIMS II) multipliers specially designed by BEA for use in economic impact studies of industrially diverse regions. The multipliers can be used to estimate the total economic impact on regional output, earnings or employment.

In 2006, 64% of the people employed or supported by the fashion industry of LA County, were located in LA City. The City's shares of the food and furniture industries were 47% and 29% respectively. The LAEDC estimates that overall, 52% of the direct and indirect employees related to the three industries in LA County were actually working in LA City.

Table 5 shows the direct, indirect, total earnings associated with operations of the fashion, food, and furniture industries in LA County, as well as the estimated LA City shares of each of these industries.

Table 5 Total Wages in LA County (\$millions), 2006				
Industry	Direct	Indirect	Total	LA City Share
Fashion	\$3,079	\$4,300	\$7,400	64%
Food	\$2,907	\$4,900	\$7,800	43%
Furniture	\$1,466	\$1,600	\$3,100	27%
All Industries	\$7,452	\$10,800	\$18,300	49%

Note: Details may not add to totals due to rounding
Source: CA Labor Market Information Division, QCEW Series; LAEDC

The first column of Table 5 presents actual (direct) earnings of the workers actually employed in these industries during 2006. The total direct wages for LA County were \$7.45 billion (also shown in Table 3).

Again applying RIMS II multipliers for each specific industry sector, the LAEDC estimated indirect earnings of people working in other industries whose jobs were supported by the direct workers in the fashion, food, and furniture industries. In 2006, the estimated wages earned by the indirect workers in the supported industries were \$10.8 billion as shown in the second column of Table 4.

The third column of Table 5 contains total direct and indirect wages related to the fashion, food, and furniture industries in LA County. Estimated total wages of workers in the county's fashion and food industries were \$7.4 billion and \$7.8 billion respectively. Another \$3.1 billion in direct and indirect wages were associated with the county's furniture industry. Combining all three industries, total estimated direct and indirect earnings were \$18.2 billion in 2006.

The LA City shares of total earnings in LA County are shown in the right hand column of Table 5. The City's share of the fashion, food, and furniture industries were 64%, 43%, and 25% respectively. Combining all three industries, the LA City share of total (direct and indirect) earnings in LA County was 49%.

Table 6 below describes some of the tax revenue impacts directly and indirectly related to the fashion, food and furniture industries in 2006.

Table 6 Estimated Tax Revenue Impact, 2006 Los Angeles County (Number of Jobs and Millions of Dollars)		
Total FTE Employment (Direct & Indirect)		495,000
Total Wages and Salaries (Direct & Indirect)		\$18,300
Total Taxable Spending		\$4,562
Taxes	Tax Rate	Tax Contributions
Sales Taxes- Los Angeles County & MTA	1.25%	\$57
Sales Taxes- Local Cities' Share*	1.00%	\$46
Total Local Sales Taxes**		\$103

* Includes "triple-flip" replacement (in property taxes) of 0.25% currently collected by the state of California.

** Details may not add to totals due to rounding

Table 5 revealed that a total of \$18.3 billion in direct and indirect wages and salaries was tied to the economic activities of LA County's fashion, food and furniture industries in 2006. Of this amount, the LAEDC estimates the three industries' direct and indirect employees spent a total of roughly \$4.6 billion for purchases of sales-taxable goods and services, as shown in Table 6 above.

Los Angeles County, the City of Los Angeles, LA County Metro (the Metropolitan Transportation Authority), and other city governments in LA County all receive sales tax revenues as a result of these expenditures. Specifically, LA County receives 0.25% and Metro takes in another 1.0% for each dollar spent for sales-taxable goods and services. Combined, the county and Metro received \$57 million in 2006 on account of economic activities related to the county's fashion, food and furniture industries.

In addition, the city in which each sales-taxable purchase occurs receives the equivalent of 1.0% for each dollar spent (including the receipt of "triple-flip" property tax revenues from the state of California in lieu of a 0.25% share of sales tax revenues). Together, the cities in LA County received an estimated \$45.6 million in 2006 that was attributable to the county's fashion, food, and furniture industries.

NOTE: LAEDC does not have enough information to identify precisely which cities shared in the \$45.6 million "city" portion of sales tax revenues. We believe that most workers spend the majority of their wages close to home. On this basis, the City of Los Angeles took in the largest amount because about 40% of the county's wage earners live in LA City. Complicating things further, city residents often buy goods elsewhere while residents of other cities in the county come into the city to shop.

What would happen if stepped-up immigration enforcement leads business owners in the affected industries to move out of the area? Here we discuss the potential risks to the economy of Los Angeles of shrinkage in the regional fashion, food and furniture industries.

The LAEDC does not know how many business firms would in fact relocate, though we know several firms are seriously considering such a move. Instead, we consider a range of scenarios to provide order-of-magnitude estimates of the number of jobs at risk.

- Scenario One assumes business establishments with 15% of the county's fashion, food and furniture employees relocate out of the area.
- Scenario Two assumes 30% move out, and Scenario Three assumes 50% of LA's fashion, food and furniture jobs disappear.
- Scenario Four is the logical worst case, as it assumes that all of the LA-based direct jobs in one or all of the three industries disappear; i.e., the industry just "goes away."

The results of the four scenario exercises are shown in Table 7 on the next page. In each case, we ask the question: "What will be the impact on employment in the fashion, food, and furniture industries (or on all three) if X percent of jobs in the industry are relocated away from Los Angeles?"

Scenario One: 15% Here we assume that 15% of jobs in the fashion, food or furniture industries (or all three) move away from the Los Angeles area. Table 7 shows that if 15% of LA fashion industry jobs are relocated out of the area—or 14,400 workers—a total of 33,600 direct and indirect jobs will disappear from the LA area. Using the LA City's 64% share of fashion industry employment (see Table 4), an estimated 21,500 of the lost jobs will be in the City of Los Angeles. LA County and Metro would lose an estimated \$3.5 million in fashion industry-related sales tax revenues, while LA City would lose \$1.8 million.³

If 15% of the direct jobs in all three industries were relocated, the total potential employment loss to the county would be on the order of 74,200 jobs and the total estimated revenue loss to the county and Metro would be \$8.7 million. For the City, this translates into a total potential loss of 38,400 direct and indirect jobs and an estimated loss of \$3.4 million in sales tax revenues.

Scenario Two: 30% Here we assume that 30% of jobs in the fashion, food or furniture industries (or all three) move away from the Los Angeles area. Table 7 shows that if 30% of LA food industry jobs are relocated out of the area—or 20,600 workers—a total of 56,100 direct and indirect jobs will vanish from the LA area. Using LA City's 47% share of food industry employment (see Table 4), an estimated 26,400 of the lost jobs will be in the City of Los Angeles. Los Angeles County and Metro would lose an estimated \$7.3 million in food-industry related sales tax revenues, while LA City would lose an estimated \$2.5 million.

³ To make the LA City estimates, we assume that fashion industry employees live in the towns where they work. This is equivalent to assuming that the inter-city flows into and out of the City are equal.

Table 7
Jobs at Risk in LA County and LA City

Industry	15%			30%			50%			100%		
	Direct Jobs	Total Jobs	Taxes (\$mil)	Direct Jobs	Total Jobs	Taxes (\$mil)	Direct Jobs	Total Jobs	Taxes (\$mil)	Direct Jobs	Total Jobs	Taxes (\$mil)
Fashion												
LA County	14,400	33,600	\$3.5	28,800	67,200	\$6.9	48,000	112,000	\$11.6	95,984	224,000	\$23.1
LA City	9,300	21,500	\$1.8	18,600	43,000	\$3.6	30,900	71,700	\$5.9	61,838	143,000	\$11.8
Food												
LA County	10,300	28,000	\$3.7	20,600	56,100	\$7.3	34,300	93,500	\$12.2	68,618	187,000	\$24.4
LA City	4,900	13,200	\$1.3	9,800	26,400	\$2.5	16,300	43,900	\$4.2	32,624	87,900	\$8.4
Furniture												
LA County	5,900	12,600	\$1.5	11,900	25,200	\$2.9	19,800	42,000	\$4.8	39,548	84,000	\$9.7
LA City	1,700	3,700	\$0.3	3,400	7,300	\$0.6	5,700	12,200	\$1.0	11,400	24,400	\$2.1
Total												
LA County	30,600	74,200	\$8.7	60,500	148,500	\$17.1	102,100	247,500	\$28.6	204,150	495,000	\$57.2
LA City	15,900	38,400	\$3.4	31,800	76,700	\$6.7	53,000	127,800	\$11.1	105,862	255,300	\$22.3

Details may not add to totals due to rounding

If 30% of the direct jobs in all three industries were relocated, the total potential employment loss to the county would be on the order of 148,500 jobs, and the total estimated revenue loss to the county and Metro would be \$17.1 million. For the City, this translates into a total potential loss of 76,700 direct and indirect jobs and an estimated loss of \$6.7 million in sales tax revenues.

Scenario Three: 50% Now we assume 50% of jobs in the fashion, food or furniture industries (or all three) move away from the Los Angeles area. Table 7 illustrates that if 50% of LA furniture industry jobs are relocated out of the area—or 19,800 workers—a total of 42,000 direct and indirect jobs will be lost to LA County. Using LA City’s 29% share of furniture industry employment (see Table 4), an estimated 12,200 of the total lost jobs will be in the City of Los Angeles. LA County and Metro would lose an estimated \$4.8 million in furniture industry-related sales tax revenues, while LA City would lose \$1.0 million.

If 50% of the direct jobs in all three industries were relocated, the total potential employment loss to the county would be on the order of 247,500 jobs, and the total estimated revenue loss to the county and Metro would be \$28.6 million. For the City, this translates into a total potential loss of 127,800 direct and indirect jobs and an estimated loss of \$11.1 million in food industry-related sales tax revenues.

Scenario Four: 100% This worst-case scenario summarizes the adverse consequences to the LA economy if one, two or all three of these key industries should exit Los Angeles entirely. While extreme, this case is not implausible. LA area manufacturers in the fashion, food and furniture industries already know they operate in a high-cost location. Many would leave for greener (lower cost) pastures if suitably enticed—or pushed. If large numbers of LA’s manufacturers do exit the area, they could set off a downward spiral. Their primary suppliers would be forced to move as well in order to keep their customers. Still more manufacturers might then leave because their local supplier base has shrunk, leading still more suppliers to relocate, etc.

A total of 224,000 LA County fashion industry related jobs are potentially at risk if the fashion industry disappears in this way. A total of 187,000 jobs tied to the food industry could disappear, and another 84,000 jobs associated with the furniture industry. Combining all three industries, the “worst worst case,” nearly half a million jobs are potentially at risk in LA County, with more than 255,000 of them in the City of LA. Bad news indeed.

In this Issue Brief, we have focused on three industries in Los Angeles—fashion, food and furniture. We selected them because:

- They are widely believed to have large numbers of improperly documented immigrant workers.
- They generate secondary or “multiplier” impacts on other, related industries in LA that provide them and their employees with goods and services.
- They are export industries, meaning they sell a lot of product to customers outside Los Angeles. Because they are export industries, they can manufacture their products almost anywhere they choose. This fact makes them extra-sensitive to the costs and problems associated with operating in Los Angeles, on the one hand, and on the other, to the incentives being offered by cities, states and nations elsewhere.
- They are industry clusters important to the LA economy. As clusters, each industry includes a full range of producers, suppliers (of everything from raw materials to specialized machinery), and customers.

We discovered that almost half a million direct and indirect jobs are tied to the fashion, food and furniture industries in LA County, with over half—52%—located in the City of Los Angeles. These figures are significant. The 495,000 jobs at risk in LA County represent 13.8% of total nonfarm employment in the county. The City of LA has even more at stake: the 255,300 total jobs at risk represented 15.1% of total city employment.

The Bottom Line: Job losses tied to heightened immigration enforcement in the fashion, food and furniture industries of Los Angeles are potentially significant—more than one in eight jobs in LA County and more than one in seven jobs in the City of Los Angeles are at risk. These losses are surely an unintended consequence of stepped-up enforcement efforts. We recognize the ongoing debate about the status of improperly documented immigrant workers. However, the final resolution is not yet clear. Until the issue is resolved, it seems highly inappropriate for the LA economy to pay this heavy a price.