# The Potential Impact of Mass Deportation

## on Small Businesses with Undocumented Workers

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## THE POTENTIAL IMPACT OF MASS DEPORTATION ON SMALL BUSINESSES WITH UNDOCUMENTED WORKERS

As the U.S. government continues to grapple with immigration policy, the prospect of mass deportations looms large under certain political administrations. Should the next U.S. administration follow through on a plan to deport all undocumented workers, the ripple effects would be felt across various sectors of the economy, especially among small businesses that rely heavily on this labor force. From labor shortages to price increases, the consequences of such a policy would be far-reaching, presenting both immediate and long-term challenges for small business owners that will likely have an adverse impact on the value of those affected businesses.

## LABOR MARKET DISRUPTIONS

Undocumented workers currently make up a significant portion of the labor force in industries like agriculture, construction, hospitality, service and all "home services" categories. Many of these sectors, particularly small businesses, depend on undocumented workers to fill labor gaps that would be difficult to meet otherwise.

In the event of looming mass deportations, small businesses that rely on this workforce may face immediate labor shortages as some undocumented immigrants with voluntarily repatriate to their home countries. Jobs in industries such as farming, landscaping, construction and food service would see substantial disruptions, leading to a sharp decline in productivity. Many small businesses simply would not have enough workers to continue operations at their current scale, and some could even be forced to close temporarily or permanently due to the inability to replace workers quickly. Owners of businesses in affected sectors may want to start mitigating their potential impact by hiring I-9 compliant workers to minimize reductions of their business' value.

## FINANCIAL IMPACT AND COST OF LABOR

The financial impact of mass deportation would extend beyond labor shortages to the rising costs associated with hiring a legal workforce. With fewer undocumented workers available, the labor pool for small businesses would become more competitive, particularly in lower-wage sectors. As businesses compete for a smaller pool of eligible workers, wages are likely to increase, which could drive up operating costs, reducing profits thereby reducing the enterprise value of these businesses if prices are not adjusted accordingly.

While wage inflation might be seen as a positive outcome for workers in the short term, the long-term implications for small businesses could be severe. Increased labor costs would eat into already thin profit margins, forcing some small business owners to make difficult decisions. To cover higher wage expenses, businesses may reduce employee hours, limit hiring, or even cut staff altogether. These adjustments would further limit their ability to operate at full capacity again having an adverse impact on profits and enterprise values.

## PRODUCT AND SERVICE PRICE INCREASES

To offset rising labor costs, many small businesses that employ undocumented workers would likely raise prices for their products and services. For example, small-scale farms could see an increase in the cost of producing fruits and vegetables, while restaurants may have to raise menu prices to reflect the added food cost and costs of securing legal workers.

For consumers, especially those in lower-income brackets, these price increases could have a profound impact on their ability to access affordable goods and services. A rise in food prices, for instance, could disproportionately affect low-income families, effectively creating a regressive tax, further exacerbating economic inequality.

Moreover, the price increases might extend beyond just consumer-facing businesses. The effects could create supply chain disruptions, where costs to suppliers also rise, thereby increasing costs across the entire production cycle. These price hikes may prompt a reduction in demand for certain products or services, particularly in industries already struggling with consumer price sensitivity. This compounding of increasing prices would potentially drive inflation rates as well.

## SOCIAL AND COMMUNITY IMPACT

The social ramifications of deporting all undocumented workers would also be significant. Many undocumented workers live in communities where they play integral roles, not only as employees but also as consumers and contributors to the local economy. Should they be removed, entire neighborhoods could experience a loss of economic activity, which could erode the tax base in some areas.

Small business owners who rely on undocumented workers often form close relationships with their employees, who contribute to the social fabric of their communities. A mass exodus of workers would not only impact the businesses themselves but also the broader social ecosystem. For many small business owners, these workers are more than just employees—they are part of their extended family, and their loss could be felt personally as well as professionally.

Small businesses in immigrant-heavy communities would likely see declines in foot traffic and sales, as undocumented workers and their families often form a critical consumer base. With fewer workers and fewer customers, these businesses would face the dual pressure of losing both their labor force and their market base leading to lower profits and business values.

## LONG-TERM ECONOMIC CONSIDERATIONS

The potential long-term impact of mass deportations would extend beyond small businesses to the U.S. economy as a whole. Immigrants, both documented and undocumented, contribute billions of dollars to the U.S. economy each year. The absence of undocumented workers could lead to a dramatic

slowdown in production and a decrease in overall economic output.

## CONCLUSION

The potential deportation of all undocumented workers could have profound and far-reaching consequences for small business owners across the United States. From labor shortages to increased operating costs, the financial strain on small businesses could be severe. The resulting rise in product and service prices could hurt consumers, particularly in low-income communities. The social impact would be equally significant, as entire communities could see the erosion of both economic activity and social cohesion.

Ultimately, the mass deportation of undocumented workers may not only harm small businesses but also have broader negative consequences for the U.S. economy as a whole. The challenge lies in finding a solution that balances enforcement with the needs of the labor market and the economic realities faced by small businesses across the nation. Without thoughtful policy reforms, the impact of such a drastic measure could reverberate through the economy for years to come.

The key consideration for business brokers and M&A advisors is to be mindful of these potential impacts of the proposed deportation of undocumented individuals as it relates to assisting business buyers and sellers of businesses in affected industries.

New valuation considerations and methodologies will have to be evaluated as business buyers, sellers, underwriters and the SBA grapple with how to fairly value and underwrite transactions.

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