



# Hispanic Economic Outlook

Fall 2019

The Report of the Hispanic Economic Outlook Committee

## Letter from the ASHE President

Mónica García-Pérez

*Page 2*

## High life expectancy versus health disparities: The complex mix about Hispanics health

Mónica García-Pérez

*Page 4*

## US Immigration Policy and Selectivity of Mexican Immigrants

Sandra Orozco-Aleman

*Page 9*

## Dynamics of Hispanic Entrepreneurship in the U.S.

Paul A. Lewin, Samuel Mindes, Monica Fisher

*Page 14*

## Some Stylized Facts on Hispanic Labor Supply After the Great Recession

Alfredo A. Romero

*Page 25*

## ASHE Sessions at SEA and ASSA

*Page 30*

## About the HEO Committee

*Page 33*

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The American Society of Hispanic Economists (ASHE)—a member of the Allied Social Science Association—is a professional association of economists and other social scientists who are concerned with the under-representation of Hispanic Americans in the economics profession and with the lack of research generated on Hispanic American economic and policy issues. Our primary goals include:

1. Promoting the vitality of Hispanics in the economics profession through education, service, and excellence;
2. Promoting rigorous research on economic and policy issues affecting U.S. Hispanic communities and the nation as a whole; and
3. Engaging more Hispanic Americans to effectively participate in the economics profession.

For more information about ASHE, please contact our current president Fernando Lozano at [fernando.lozano@pomona.edu](mailto:fernando.lozano@pomona.edu) or visit our website at [www.asheweb.net](http://www.asheweb.net).

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## Letter from the ASHE President-Elect

Mónica García-Pérez<sup>1</sup>

This year the American Society of Hispanic Economists turned 17 years old since its creation, with ten years as an AEA recognized organization. I am happy to say that today ASHE has become an incredibly supportive professional family for all its members and a source of thoughtful mentorship resources for many young scholars. My strong wish is to maintain that role and to expand our impact through those who have been long part of the organization, the incoming new members, and the new cohort of young Hispanic economists wishing to make changes.

As we reflect through this year's events that have besieged the Hispanic/Latino community in the U.S., we, professionals, stop to ask ourselves how our work sheds light on the issues that matter and the possible solutions that would benefit the community and the nation. In this HEO edition of the Hispanic Economic Outlook, you will find different researchers exploring and presenting different perspectives on the issues affecting the Hispanic community in the U.S. In our first article, Sandra Orozco-Aleman presents a summary of her co-authored work with Heriberto Gonzalez-Lozano on crime immigration enforcement and migration in Mexico. They find that drug-related violent crime and the U.S. internal push on immigration enforcement have shaped the composition of Mexican migration into the U.S. by increasing the cost of internal migration within Mexico and the passing through the border. As these trends and migrant compositions are changing, and with the foreseeable increase of immigration enforcement, there is a need to understand further how these changes will impact the national Hispanic community.

With another perspective on issues affecting the Hispanic community, I explore the topic of the Hispanic Paradox disaggregated by race and nativity to show how the prevalence of costly-to-treat chronic conditions varies by specific groups. As we emphasize these differences, we can bring together better policies and organizations that could address the root of some of these disparities. Later in the publication Paul Lewin, Samuel Mindes, and Monica Fisher explore the push and pull elements that affect the dynamics of self-employment among different groups of Hispanics in the country. This sliced presentation of Hispanic entrepreneurship by home country allows the authors to scrutinize the different barriers or incentives that explain the variation in entrepreneurship rates in the community. Further, Alfredo Romero shows us current stylized facts about the labor supply and wages of the Hispanic community in the U.S. The author separates these trends between those born in the country and those born abroad. This separation emphasizes the relevance of the differences within the group labeled as Latino. Hispanic-Americans are not reflecting the same trends as their foreign-born counterparts, which may create remarkable differences between these groups.

Understanding the diversity within the Hispanic community and how this diversity can also imply different ways of analyzing the issues, barriers, and dynamics is a common factor among the articles

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in this release. Take a look at them and think about your work and how diversity could be playing a role in matters of the label Hispanic.

As I think about diversity within our community, I also think about diversity within our organization. This comparative thinking brings me to incorporating diversity ideas into my goals for 2020. Like previous presidents, I will be working with the organization to plan strategies that will help us increase the number of ASHE's active members and with that, to contribute to the increase in the diversity of Latin@/Latinx/Hispanics in our profession. Furthermore, parallel to highlighting the issues and the professionals in the U.S., I would like to bring attention to the regional issues in Latin America as these ultimately affect the current Hispanic community in the country (as we see from Orozco-Aleman's article). Finally, I would like to work on strengthening the relationships already existing with other organizations representing minorities and communities of color in the profession. Our partnerships with these institutions make us not only stronger but also humbler as we understand and compare the similarities and differences that each community faces.

For a final note, I would like to personally invite you to our board meeting at the 2020 ASSA meetings and our special events (reception and dinner). Stay connected with us to know the details of these events and other forthcoming ones, such as the hosted sessions in the SEA and WEA conferences (see the last pages of this report). Invite and bring other colleagues, spread the word about these activities. We will welcome you and offer you a professional home where you can flourish into a responsible and successful Economist!

Have a great autumn, and see you in 2020!

Mónica García Pérez (@econ\_garcia)  
President-elect

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## High life expectancy versus health disparities: The complex mix about Hispanics health

Mónica García-Pérez<sup>1</sup>

When researchers undertake the discussion on health disparities among Latinos<sup>2</sup> in the U.S., they encounter two relevant and related concepts: the Hispanic Paradox (HP) and the Healthy Immigrant Effect (HIE). The HP relates to the higher life expectancy among adult Latinos compared to other racial and ethnic groups, especially non-Hispanic whites, despite Latinos' economic disadvantages, and the fact that Latinos face barriers to access and utilization of healthcare. Meanwhile, the HIE explores the advantages in terms of health outcomes among recent immigrants due to either healthy people being more likely to migrate, while sick people are more likely to return to their country of origin (also known as the “Salmon Bias Hypothesis”). Because a meaningful proportion of Latinos are either first or second-generation immigrants, many researchers have been trying to understand the Paradox through the HIE. However, the evidence is mixed, leaving inconclusive the answer explaining the Hispanic Paradox.

In general, Hispanics' life expectancy has relevant effects on the nation's demographics and population changes. With 1 in 6 people in the country being Hispanic, and with a fast-growing Hispanic population, this ethnic group has become the largest minority in the U.S. Latino children will become a larger proportion of the young population in the country in the next half-century.

Despite the positive aggregate findings in terms of life expectancy compared to non-Hispanic Whites, the “Latino advantage” is not reflected in all health conditions. Latinos are more likely to die due to liver disease, diabetes, AIDS, or cervical cancer than non-Hispanic White individuals. The analysis complicates even further when the lack of access to healthcare affects the likelihood of diagnosis and care for certain conditions, especially chronic conditions.

The lack of care for conditions such as liver, kidney diseases, or diabetes leads to further complications and acute conditions that are either addressed too late or undiagnosed. Although the total death rate among Hispanics is 24% lower than White non-Hispanics, they are 50% more likely to die from diabetes complications or liver disease.<sup>3</sup> The National Diabetes Statistics Report (2017) estimates that Hispanics are 63% more likely to be diagnosed with Diabetes, and 2.5 times the chance of undiagnosed diabetes. The impact of diabetes and the higher prevalence rates replicates in long-run connected diseases as Hispanics are 34% more likely to develop diabetes-related renal disease, and 33% more likely to die from other diabetes-related diseases.

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<sup>1</sup> *Mónica García-Pérez, Ph.D., is a Full Professor of Economics; director of the St. Cloud State Faculty Research Group of Immigrant Workers in Minnesota at St. Cloud State University and ASHE's president-elect.*

<sup>2</sup> There are differences in the definition of Hispanic and Latino, however, this report will be using these two definitions interchangeable. Because of data limitations, the populations that could be included or excluded with the change of definitions (i.e. Brazil versus Spain) are not identified in this report.

<sup>3</sup> See <https://www.cdc.gov/vitalsigns/hispanic-health/index.html>.

Care for chronic conditions accounts for a large portion of healthcare expenses for the elderly. But it does not only impact the advanced age population; it also accounts for a substantial amount of medical expenditures among nonelderly adults (Machlin et al., 2008). According to Diabetes Care (2017), “one of every four healthcare dollars is incurred by someone with diabetes, and one of every seven health care dollar is spent directly treating diabetes and its complications.”

For this report, I show a simple analysis that corroborates some of the general findings previously reported by official organizations and the literature. I add to the analysis a further differentiation among the group identified as Hispanic. Using the National Health Interview Survey (1997-2017), I estimate the differences between Hispanics and non-Hispanic whites. Further, I separate the group of Hispanics between white Hispanics and black Hispanics, and between immigrant Hispanics and non-immigrant Hispanics. The analysis in this report is not expected to be exhaustive, but to show relevant differences that could only be recognized when we separate Hispanics across relevant groups. The data’s major limitation is that we cannot identify individuals’ place of birth; only general regions are provided. Hence, only aggregate information on born abroad is used in this report. Given previous findings, the preliminary analysis of the data I present here focuses on the conditions that could be identified as chronic conditions where Hispanics show lower performance compared to non-Hispanic whites: Diabetes, kidney failure, and liver failure. These three conditions are among the top leading causes of death among Latinos.

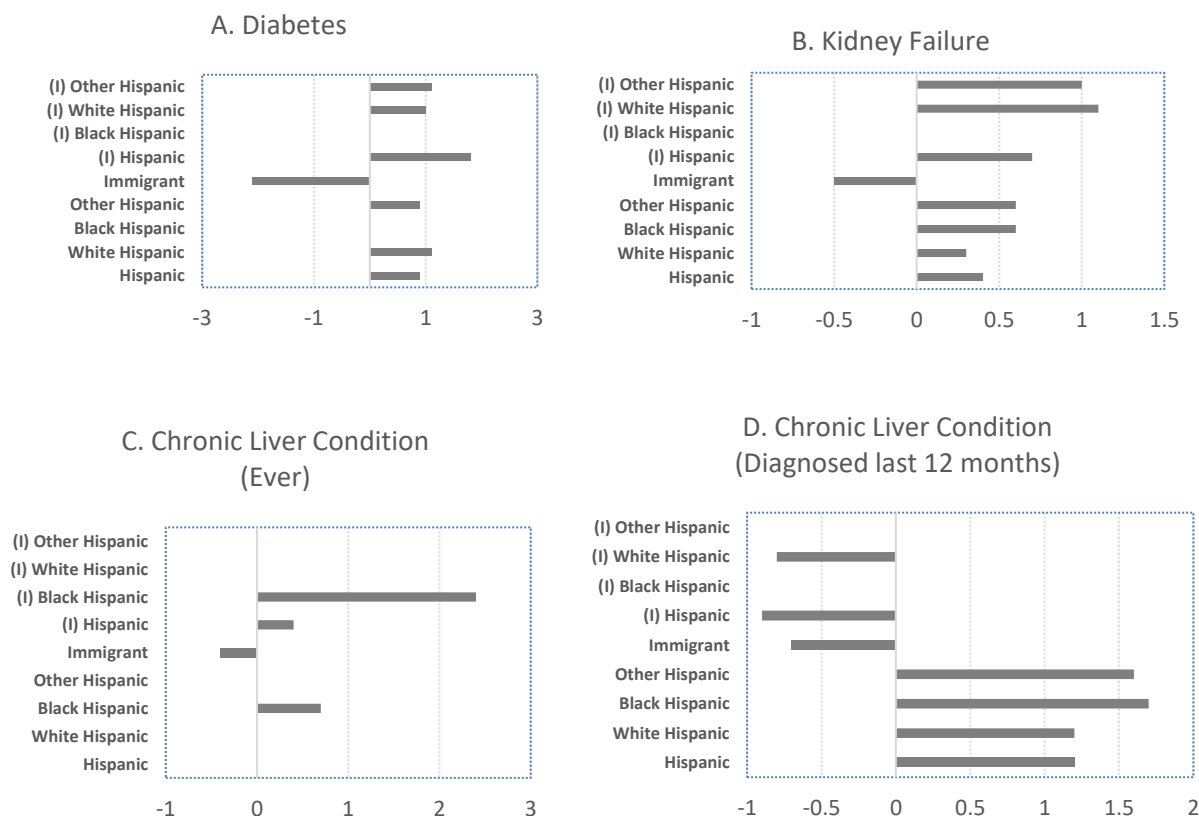
The reasoning behind separating Hispanics across racial groups and nativity status is to capture the different components that affect this diverse group. By racial groups, black and white Hispanics are likely to have different socio-economic statuses and experiencing different barriers due to their racial background. By immigration status, Hispanics coming from Puerto Rico are not considered immigrants. Also, Hispanics from countries that have benefited from special immigration policies are more likely to have access to different opportunities and economic mobility. More general, immigrants have limited access to healthcare services and especially to public health coverage.

I do a simple analysis of the separated Hispanic groups (by race and by nativity) and compare their differences across specific conditions against the white (native) population. The selection of the conditions shown in this report arises from previous literature and from those indicators that show consistent and negative outcomes when they are compared to the more predominant population. Despite the simplicity of the analysis, there are several interesting stylized facts to point out.

Like previous literature, I find that Hispanics are more likely to be diabetic than their white counterparts (Figure 1.A). However, this condition is more relevant among Hispanics that identify themselves as White, and also among those who, although immigrants, are identified as white or Other race (1 percentage point more likely than white ‘native’ population). Early research, so far, has not highlighted the difference in the prevalence of this chronic disease among a particular racial group within the Hispanic population. Because the NHIS public version data does not release the specific place of birth at the individual level, I cannot identify the countries among the immigrant groups that select White as their race.

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**Figure 1.** Prevalence rates on chronic conditions: Differences between Hispanic groups and non-Hispanic whites.



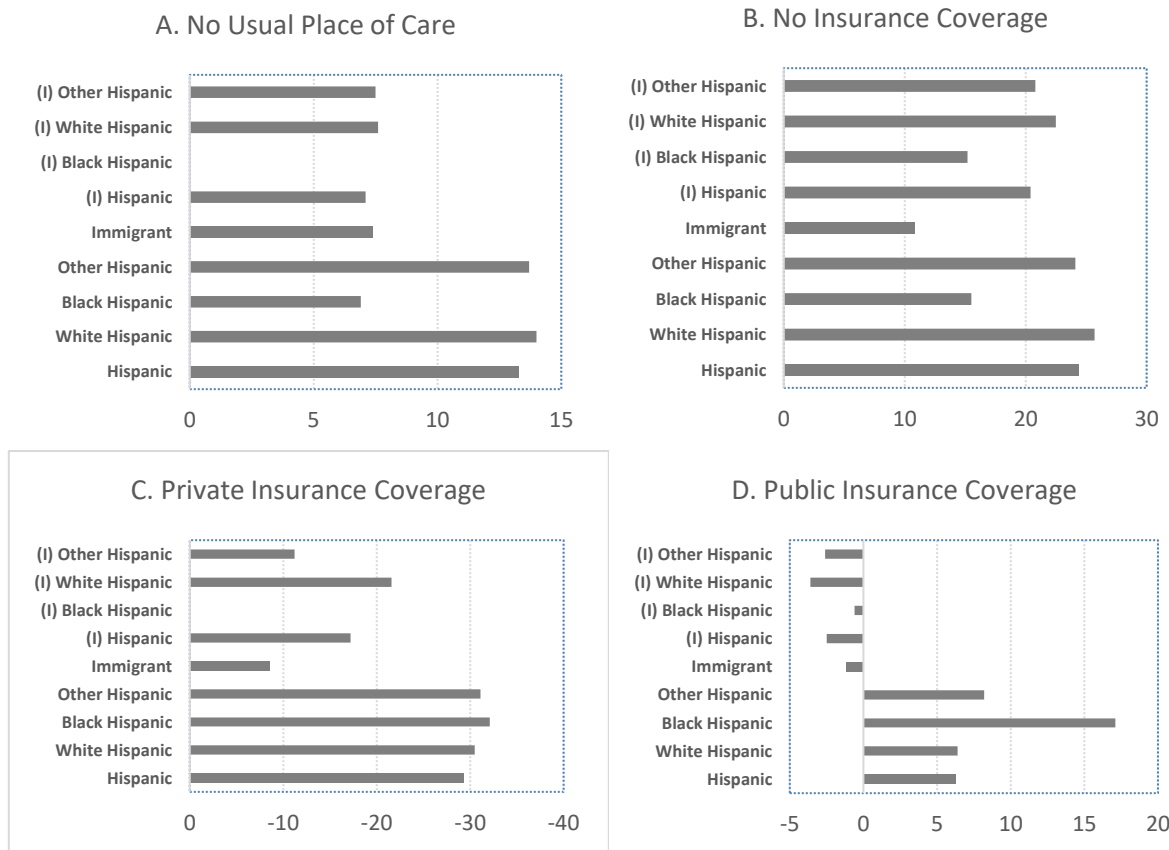
Note: 1997-2017 IHIS. Author’s calculation. (I) identifies that the group is an immigrant group (i.e., born outside the U.S.). Individuals are identified as Hispanic if they answer yes to the Hispanic ethnicity question. Meanwhile, White, Black, and Other are identified as the race the individual answered under the race question. Graphs show the estimated differences in likelihood between the identified group and the ‘native’ White population. All values shown are significant at 1 percent of significance level. The x-axis shows percentage points differences. -axis is the percentage points difference between the identified group and non-Hispanic whites.

We see a similar case when looking at the questions that define if someone has ever been diagnosed with kidney failure (Figure 1.B). The disparity in the prevalence of this diagnose is significant among White and Black Hispanic, but not among immigrant Black Hispanic. Immigrant White Hispanics have a larger disparity in the likelihood of having this condition (over 1 percentage point) compared to their white native counterparts. The comparison is reversed when we observe liver issues (Figure 1.C and 1.D). On this condition, Black Hispanics have a larger propensity of being diagnosed with a chronic liver condition compared to our base group. The prevalence of the diagnosis is more than 2 percentage points likely among immigrant Black Hispanics.

Looking at the predominant chronic conditions among Hispanics and separating these rates across race and nativity shows us that the issue could be targeted to different populations within the Hispanic community. This separation is important. The tendency of treating these issues as homogenous across

all Hispanics could be ill-advised because of how they impact certain groups, and how specific conditions and backgrounds could differently explain the source and the underline mechanisms that explain the management and treatment options of these conditions.

**Figure 2.** Access to Healthcare: Comparison between Hispanic groups and non-Hispanic whites



Note: 1997-2017 IHIS. Author’s calculation. (I) identifies that the group is an immigrant group (i.e., born outside the U.S.). Individuals are identified as Hispanic if they answer yes to the Hispanic ethnicity question. Meanwhile, White, Black, and Other are identified as the race the individual answered under the race question. Graphs show the estimated differences in likelihood between the identified group and the ‘native’ White population. All values shown re significant at 1 percent of significance level. The x-axis shows percentage points differences. Y-axis is the percentage points difference between the identified group and non-Hispanic whites.

It is worth noticing that when we look at Hispanic chronic conditions’ prevalence rates, we need to keep in mind that access to care also differs across groups. Therefore, their diagnosis could be underestimated among groups that do not have access to care and do not visit the doctor regularly. Figure 2 shows a basic analysis that compares the Hispanic groups against non-Hispanic whites in terms of access to care. I use overall coverage, private coverage, public coverage, and no place of usual care, to depict a scenario for each group. As expected, among all Hispanic groups, lack of insurance and a usual place of care is predominant. Yet, the gap of uninsurance rate and no usual place is relatively smaller among immigrant Hispanics. Despite these differences, across the board, the gaps

are significantly large. Private insurance is not common among Hispanics, but especially among non-immigrant Hispanics when compared to non-Hispanic whites.

Meanwhile, public insurance is more likely among Hispanics, especially among those identified as Black Hispanic, when compared to non-Hispanic whites. With this in mind, one has to look at the prevalence rates presented above with care. Chronic conditions are generally hidden conditions that are diagnosed either during regular preventive checkups or when they result in more severe complications.

The main goal of this report was to show the differences that exist within the group the literature tends to identify in aggregate as Hispanic. Our basic results show that racial and nativity identification can convey relevant information about the particular group and in our case, about prevalence rates for different chronic conditions that are tackled differently in terms of clinical management, self-management, and preventive care. One possible takeaway from this report is that, when possible, researchers and policymakers need to identify the other characteristics of the Hispanic group the research or intervention considers the target population. As with many other issues, a one-size-fits-all policy could be detrimental and inefficient if not targeted to the right group. Maybe at local levels, this issue is not as significant as at more statewide and national levels. However, still, the call here is to consider the differences within the group. Further, when looking at the results on the longer life expectancy among Hispanics, one needs to wonder whether there is an important difference between life expectancy and quality of life when we also see the high prevalence of diabetes in this community. As people live longer, the complications from diabetes become more regular, more expensive and difficult to treat, and more fatal.

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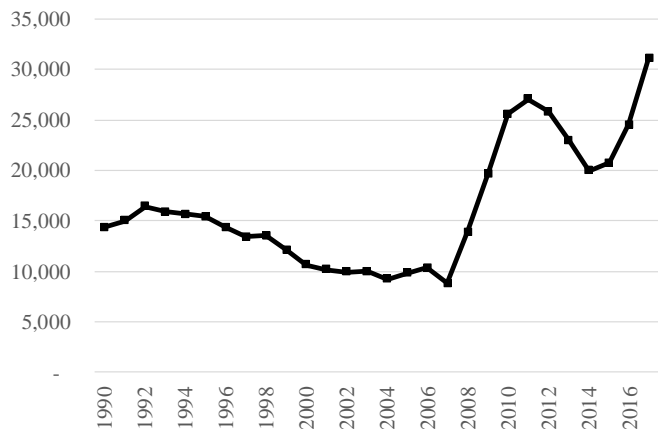
## U.S. Immigration Policy and Selectivity of Mexican Immigrants

Sandra Orozco-Aleman<sup>1</sup>

Over the last decade, the trends in Mexican migration have undergone considerable changes. Estimates from the Pew Hispanic Center show that in 2010, for the first time in four decades, the net flow of immigrants from Mexico to the United States was zero. Furthermore, for the period 2009–2014, the net flow of immigrants was negative. While there has been some research investigating the role of the recession and immigration policies in shaping the new trends (e.g., state immigration laws, E-verify mandates, and 287(g) agreements), little is known about the degree to which the Mexican drug war contributed to change the inflows and outflows of Mexican immigrants.

In 2006 the Mexican government launched an aggressive military campaign against drug trafficking organizations that sparked competition, fragmentation, and alliances among criminal organizations. The move led to instability and a staggering amount of violence prompting the displacement of hundreds of thousands of Mexicans. The movement was not only internal; it forced individuals to search for safety beyond Mexico’s borders. Motivated by these events, in the paper entitled “Drug Violence and Migration Flows: Lessons from the Mexican Drug War” co-authored with Heriberto Gonzalez-Lozano we examine the effect of the increase in violence on the inflows of immigrants from

Mexico into the United States.



**Figure 1:** *Homicides in Mexico 1990-2017*

Violence imposes a social and economic burden on individuals and businesses, affecting individuals’ incentives to migrate. Moreover, violence can also affect migration decisions through changes in migration costs. In the paper, we analyze the effect of two different types of violence: local violence where prospective migrants live, and transit violence on the routes taken to the United States–Mexico border. Local violence is measured using homicide rates at the municipality of residence. For transit violence, we construct two indices that capture the

violence migrants are exposed to while traveling to the U.S. while in their state, as well as the violence through which they must travel when crossing through other Mexican states.<sup>2</sup>

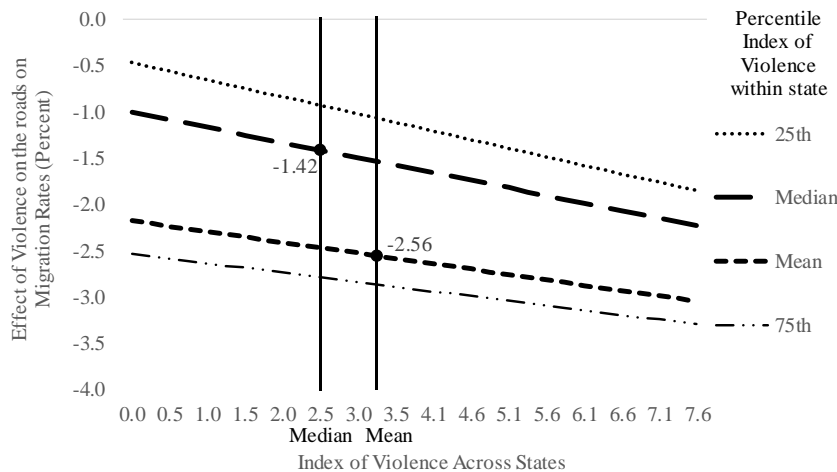
A concern when studying the effect of drug violence on migration decisions is the presence of endogeneity between migration and homicide rates. If the likelihood of observing drug violence in a specific municipality is correlated with the probability of its residents to migrate, the results would be biased. To address the endogeneity of homicides, we construct three instruments using electoral cycles

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<sup>2</sup> Data on homicides is from the National Institute of Statistics, Geography, and Information (INEGI), and data on Mexican immigrants is from the Survey of Migration at Mexico’s Northern Border (EMIF). The EMIF is a cross-sectional survey conducted in Mexican border cities that measures the flows of migrants between Mexico and the United States.

in Mexican municipalities. Drug violence has been broadly associated with municipal elections; drug cartels have attempted to influence elections to make sure whoever is elected does not interfere with their criminal activities. Importantly, however, there is little reason to expect that municipal elections would have independent effects on migration incentives because local spending at the municipal level is mainly determined by federal transfers, not by discretionary decisions made by the municipal governments themselves.

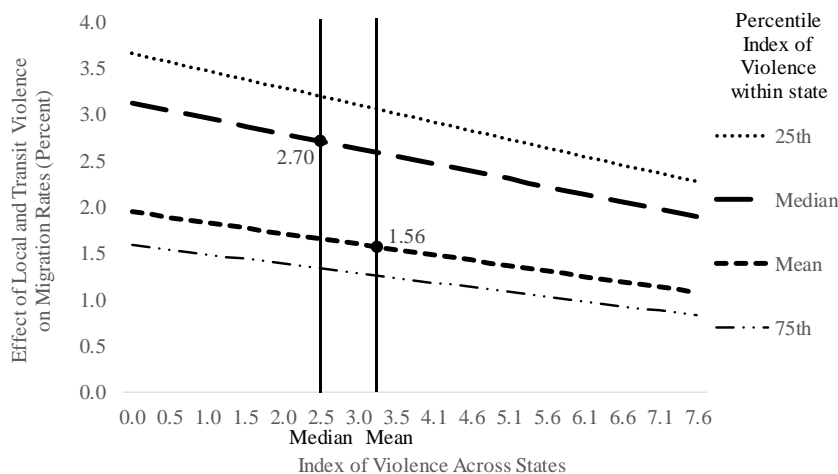
**Figure 2: Effect of Transit Violence on Migration Rates**



Our findings show that local violence increased migration, but violence along the passage to the United States (transit violence) deterred individuals from migrating. Figure 2 shows the effect of transit violence on migration rates for municipalities with different characteristics. The horizontal axis shows variation in the index of violence across states, including the mean and median. The different series in the graph show the effect for municipalities with different

levels of violence within the state: 25<sup>th</sup> percentile, median, mean, and 75<sup>th</sup> percentile. According to Figure 2, a municipality with average violence observed a 2.56 percent decrease in its migration rate due to transit violence. A municipality with median violence within and across states suffered a 1.42 percent drop in its migration rate.

**Figure 3: Effect of Transit and Local Violence on Migration Rates**



Next, we estimate the total effect of violence —local and transit— for different municipalities. Figure 3 shows that a municipality with average violence observed an overall increase of 1.56 percent in its migration rate. The municipality with median violence within and across states observed an increase of 2.70 percent in its migration rate. These findings suggest that the migration rate in a municipality with average local

violence could have potentially increased as much as 4.1 percent if violence on the roads would not have deterred migration.

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Finally, we calculate the net effect of transit and local violence over the period of analysis. Back-of-the-envelope calculations show that violence on the roads was responsible for a 1.83 percentage point decline in migration between 2007 and 2012. We calculate an overall positive effect of violence on migration flows of 1.53 percentage points. This figure represents a 50 percent increase in migration into the U.S. relative to the level observed in 2007.

While drug violence pushes immigrants to leave their homes and migrate to the United States, an increase in interior immigration enforcement in the United States may have also affected the incentives to migrate of Mexican immigrants. Over the last decade, federal, state, and local policies have been aimed at decreasing undocumented immigration. These policies include the implementation of E-Verify mandates, Omnibus Laws, and 287(g) agreements. But, can changes in US immigration policies change the selectivity of Mexican immigrants? Can the increase in drug-violence in Mexico change the characteristics of the Mexican workers who find it optimal to migrate to the United States?

In the paper “Drug-violence, Immigration Enforcement, and Selectivity: Evidence from Mexican Immigrants” we answer this question. We examine whether drug violence has selectively motivated Mexicans to migrate to the United States, for instance, by increasing the likelihood of observing immigrants with higher educational attainment, English proficiency, or with more unobservable abilities. Moreover, we ask whether interior enforcement has selectively deterred immigrants by analyzing if interior enforcement is associated with changes in the observable and unobservable abilities of Mexican immigrants.

Theoretically, the impact of violence on the selectivity of immigrants is ambiguous. It is determined by two factors: whether violence has an overall positive or negative effect on migration flows, and how the skills of immigrants compare to those of the total Mexican population. To empirically analyze the effect of violence, we exploit the variation in homicide rates across municipalities over time.

We find that although there is no evidence that drug-violence is associated with changes in years of schooling, it is associated with increases in English proficiency. One more homicide per 10,000 inhabitants increased English proficiency by 0.19 percentage points. This estimate suggests that the 109 percent increase in the homicide rate observed between 2005 and 2014 increased English proficiency by 5.98 percent relative to the level observed in 2005.

To measure unobservable ability, we decompose earnings into one part correlated with observable characteristics and another uncorrelated with observable measures (residual earnings). One concern when estimating the effect of violence on unobservable ability is the presence of endogeneity between earnings and homicide rates caused by unobserved heterogeneity. To avoid endogeneity problems we instrument for violence using electoral cycles at the municipality level. Table 1 shows that an increase in violence is associated with a decrease in unobservable skills. One more homicide per 10,000 inhabitants decreases average unobservable skills by 2.69 percent. A standard deviation increase in the one-year homicide rate decreases average unobservable skills by 6.1 percent.

**Table 1. Effect of Drug Violence on Unobservable Abilities 2006-2014**

| Second Stage Estimates              | All Observations |           | Males    |          | +200 miles | +700 miles |
|-------------------------------------|------------------|-----------|----------|----------|------------|------------|
| Homicide Rate (t)                   | -.0269**         |           | -.0250** |          |            |            |
|                                     | (.0114)          |           | (.0111)  |          |            |            |
| 2 Year Homicide Rate (t,t-1)        |                  | -.0174*** |          | -.0163** | -.0115     | .0502***   |
|                                     |                  | (.0066)   |          | (.0066)  | (.0077)    | (.0166)    |
| Observations                        | 52,263           | 52,263    | 50,783   | 50,783   | 49,564     | 25,078     |
| Kleibergen-Paap rk Wald F-statistic | 6.186            | 19.792    | 6.19     | 17.297   | 13.816     | 33.801     |

Next, we analyze if the effect of violence on unobserved skills differs across individuals facing different migration costs. In the last columns of Table 1, we exclude from the analysis any migrants residing near border crossing points (less than 200 miles, representing 2 percent of the sample) and residents traveling less than 700 miles to border crossing points (50 percent of the sample). When we eliminate migrants residing near crossing points, the coefficient is not significant. Moreover, when we use individuals traveling longer distances –facing higher migration costs– the coefficient becomes positive and relatively large. One more homicide increases unobservable skills by 5.02 percent. A standard deviation increase in the two-year homicide rate increases unobservable ability by 20.48 percent. These findings suggest that migrants facing higher migration costs require more significant investments and are exposed to more substantial losses in the event of a failure. Those migrants need to have more skills and abilities to afford the trip and to minimize potential risks.

Finally, we analyze the effect of interior enforcement on immigrants’ characteristics. While immigration law falls within the jurisdiction of the federal government, we have observed an unprecedented growth in local and state immigration enforcement over the last decade. For example, there is the proliferation of omnibus immigration laws regulating state activities as related to immigrants, including their access to public benefits, or a directive for police departments to check the legal status of individuals suspected of being undocumented. Another example is the mandate to use E-Verify to verify the identity and employment authorization of immigrants. Finally, some states and communities have signed 287(g) agreements with Immigration and Customs Enforcement (ICE) to receive training in and authority for immigration enforcement within their jurisdictions. If immigration policies change the marginal cost and benefit of residing in a given location, then the characteristics of the immigrants who find it optimal to settle in that location might also change.

To measure interior enforcement, we construct an index by state, over time. Our Internal Enforcement Index starts at zero and increases by one unit if a state has signed an omnibus immigration law, a 287(g) agreement, or if E-verify was enforced during that year. We assign to immigrants the value of the index calculated for the state where they intend to work, during the year they enter the United States. To analyze the effect of interior enforcement, we exploit the variation in the enactment of policies over time, and across states.

**Table 2. Effect of Internal Enforcement on Migrants' Characteristics**

|                            | Migration Experience |           |
|----------------------------|----------------------|-----------|
| Internal Enforcement Index | 0.0231***            |           |
|                            | (0.0031)             |           |
| Omnibus Laws               |                      | 0.0233*** |
|                            |                      | (0.0050)  |
| 287(g) Agreements          |                      | 0.0253*** |
|                            |                      | (0.0065)  |
| E-Verify                   |                      | 0.0210**  |
|                            |                      | (0.0082)  |
| Observations               | 90,936               | 90,936    |

The results show that more aggressive interior enforcement has a selective deterrence effect on undocumented immigrants. A single unit increase in the internal enforcement index increases the probability of observing individuals with previous migration experience by 2.31 percentage points. A standard deviation increase in the index increases that probability by 2.47 percentage points.

Finally, we analyze the effect of enforcement on immigrants with and without migration experience.

The outcome variables are years of schooling, English proficiency, and unobservable abilities. Our results indicate that interior enforcement is associated with increases in English proficiency and unobservable abilities among immigrants with previous migration experience. Conversely, among immigrants without prior migration experience, enforcement is associated with a minor decline in years of schooling.

Summarizing, drug violence and interior immigration enforcement have influenced the composition of the Mexican immigrant flow. We find that violence is associated with increases in English proficiency among immigrants. Because violence has not ceased in Mexico, its effects on immigrant flows can be long-lasting, changing the characteristics not only of the inflows but also of the stock of immigrants living in the United States. Moreover, we find that interior enforcement has selectively deterred undocumented workers. Immigrants with previous migration experience, who are English proficient and have higher unobservable abilities, are more likely to be found in regions with more aggressive interior enforcement. The increase in the proportion of English proficient immigrants with high unobservable ability results in improved labor market outcomes for them, a higher probability of finding jobs, and higher productivity and earnings in the US labor market.

Laws and regulations both in Mexico and the United States affect immigration flows and the characteristics and skills of immigrants which in turn impact the economic growth, innovation, and human capital in the US. While there is a large body of literature on immigration policies and their effects, there is still much research to do. Understanding the determinants of authorized and unauthorized immigration creates the opportunity to affect immigration policy reform.

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## Dynamics of Hispanic Entrepreneurship in the U.S.

Paul A. Lewin, Samuel Mindes, Monica Fisher<sup>1</sup>

Entrepreneurship plays a vital role in economic development. Chief among those participating in entrepreneurial activities are Hispanics, as evidenced by the rapid increase in the number of businesses owned by Hispanics. Data from the Census Bureau’s Survey of Business Owners reveal that the number of Hispanic business owners increased from 1.2 million in 1997 to 1.5 million in 2002. The figure climbed to 2.3 million in 2007 and 3.3 million in 2012, at which point Hispanic-owned businesses represented 12% of all U.S. businesses. Between 2007 and 2012, the growth rate of Hispanic-owned businesses was 46.3%, far outpacing the 0.2% growth rate of non-Hispanic owned businesses. Furthermore, Hispanics have the highest rate of new entrepreneurs according to the Kauffman Index of Entrepreneurship. Their 2015 index of 0.46 was higher than Whites (.032) and African Americans (0.23) (Fairlie, Reedy, Morelix, & Russell, 2016).

This dramatic growth in Hispanic business ownership may hold the potential to increase earnings and overall well-being. This is of considerable policy interest, given that poverty is far higher among Hispanics than the general population: 21.4% versus 14.8% in 2014 (Krogstad, 2017). However, before policies are designed and implemented to support further Hispanic entrepreneurship growth, there is a need to understand the factors that push and pull Hispanics into self-employment. Of principal importance is the variation in entrepreneurial outlook across the many Hispanic origin groups. As shown in Figure 1, self-employment rates ranged from a low of 1.7% for non-immigrant women who reported their ancestry as Honduran to a high of 46.5% for immigrant men whose country of origin is Paraguay. Thus, our study examines a variety of push-pull elements of self-employment decisions for Hispanics across ten different countries or regions of origin.

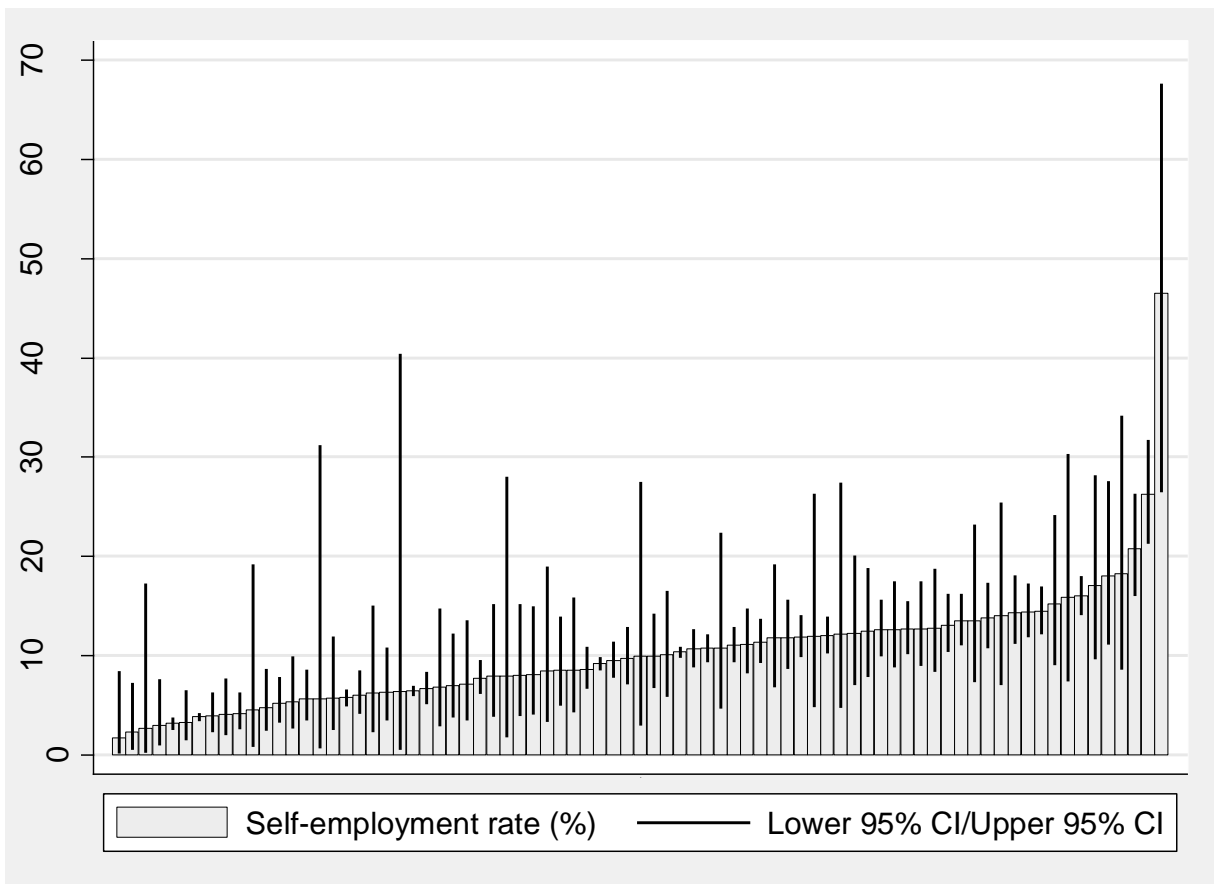
### *Data and modeling*

This study uses a 2015 data set from the U.S. Census Bureau’s American Community Survey (ACS), which documents 5 percent of the U.S. population. Data were obtained from IPUMS-U.S.. We restrict our analysis to Hispanics aged 25–64 years, working and not attending school at the time of the ACS, and part of the civilian, noninstitutionalized population. An essential advantage of the ACS is the potential to create large, diverse samples. Our sample is substantial compared to samples for other nationally representative U.S. data sets. Critically, the ACS contains data on variables found to influence self-employment participation and earnings of Hispanics, including those related to ethnicity, immigration status, educational attainment, family structure, wealth, and industry. A drawback of ACS data is the limited measures of entrepreneurial business performance—self-employment earnings last year is the only such variable. Information is not

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available to measure the firm’s return on investment or business survival, as the data set is cross-sectional.

**Figure 1.** Self-employment rates in 2015, by sex, country of origin, and immigrant status



Source: Fisher and Lewin (2018). Each bar in Figure 1 represents a sex-country-immigrant combination, for example a female, non-immigrant to the U.S. whose country of origin is Venezuela.

To identify the factors that push and pull Hispanics into self-employment, we modified a theoretical model developed by Clark and Drinkwater (2000). According to the theory, workers choose whether to be self-employed or work in the wage/salary sector based on a comparison of relative earnings in the two sectors and their entrepreneurial ability which affects self-employment cost. To operationalize this empirically, we estimated a probit selection model and an earning equation simultaneously using maximum likelihood methods. In the model, a suggested push factor is evidenced by a larger negative association with wage sector earnings than with self-employment and a positive association with self-employment. Conversely, a pull factor would be suggested by a larger positive association with self-employment than wage sector earnings and a positive association with self-employment.

There are several reasons for Hispanic self-employment. A primary explanation is based on the disadvantage theory, which argues that discrimination and language barriers lead to lower wages and earnings for minorities and immigrants, which in turn pushes them into self-employment (Light, 1979; Moore, 1983). Consider, for example, the case of immigrant Hispanics vs. US-born Hispanics. Assuming similar distributions of entrepreneurial ability among the two groups, if immigrants face greater discrimination and, therefore, lower earnings in the wage/salary sector, we could expect higher rates of self-employment for Hispanic immigrants compared to US-born Hispanics. Similarly, limited English language facility may push Hispanics into self-employment. A 2007 Pew Center national survey of Hispanics revealed that 58% perceived discrimination as a significant problem in the workplace primarily related to nativity and language usage patterns. To test this bias our empirical model includes two variables, one to specify if the worker is an immigrant and another to indicate English proficiency.

However, the observed variation in self-employment rates across Hispanics (Figure 1) makes clear that disadvantage theory is only a partial explanation. Additional explanations highlight group-specific or cultural factors, such as ethnic resources (Borjas, 1986) or culture of entrepreneurship in one's country of origin (Yuengert, 1995), that pull minority workers into self-employment. Furthermore, human capital may be a key pull factor as it allows workers to take advantage of self-employment opportunities and provides better access to resources needed for the business (Patrick, Stephens, & Weinstein, 2016).

Ethnic enclaves, which result from the spatial clustering of people sharing an ethnicity, may encourage self-employment because individuals have a comparative information advantage in providing goods and services to their co-ethnics or can more easily access start-up capital in enclaves (Borjas, 1986). For businesses offering ethnic services, these communities offer potential employees with knowledge of culturally-specific work (Castles, de Haas, & Miller, 2014). This favorable context of reception can translate into either higher entrepreneurial ability or lower production costs. On the other hand, enclaves may deter self-employment among co-ethnics if established immigrants block the entry of more recent immigrants or ethnic services have reached the point of saturation. Furthermore, some enclaves may be economically poor with residents having low purchasing power, which could restrain the potential of business formation (Toussaint-Comeau, 2008). Therefore, the question of whether enclaves are a pull factor or a barrier to self-employment is an empirical one.

Following other studies (e.g., Toussaint-Comeau, 2008), we measure an ethnic enclave as the concentration of people originating from the same country or region within a defined geographical area—specifically the corresponding Public Use Microdata Area (PUMA). For each person, the relevant ethnic concentration is that for her/his specific origin. Thus, the model includes a single ethnic enclave variable which varies by area of current residence (or PUMA) and country of origin.

The home country self-employment hypothesis argues that immigrants from countries with a large self-employment sector are more likely to engage in self-employment themselves. Portes and Rumbaut (2014) link the differences in propensity for business ownership to culturally-based



values systems and traditions, stressing the role of a culture of entrepreneurship. Additionally, immigrants may have had some exposure to self-employment in their country of origin (e.g., business training or running a business) (Hammarstedt, 2001; Hammarstedt & Shukur, 2009; Yuengert, 1995). With this knowledge or experience, workers may have higher efficiency at starting a business or less attachment to the wage/salary sector (Yuengert, 1995).

In the empirical model we include a set of binary variables to capture the residual effects of country of origin on self-employment participation. To avoid small cell size problems, we combined some of the countries with relatively small numbers of observations into regional groupings, resulting in 10 country or region groupings: Mexico, Puerto Rico, Cuba, El Salvador, Other Central America (Costa Rica, Guatemala, Honduras, Nicaragua, and Panama), Southern South America (Argentina, Chile, Paraguay, and Uruguay), the Andes (Bolivia, Ecuador, and Peru) and Venezuela, Colombia, Spain, and the Dominican Republic. If the country or region of origin remains quantitatively and statistically significant in the presence of control variables, this could reflect a culture of entrepreneurship in the home country (Hammarstedt & Shukur, 2009; Yuengert, 1995), although other interpretations are also possible.

The human capital hypothesis posits that human capital may be a pull factor in self-employment decisions. Workers with more human capital are better able to take advantage of opportunities and access resources that are improve self-employment success (Patrick et al., 2016). Conversely, low levels of human capital may push workers into self-employment. Workers with an unattractive mix of human capital may resort to entrepreneurship when unable to find wage/salary employment. Similarly, they may use self-employment as a steppingstone to wage/salary work. Thus, human capital may act as a pull or push factor in self-employment decisions. We use educational attainment and age as a proxy for human capital.

A further component is the status of the employment sector more broadly. Limited opportunities in the wage/salary sector may push workers into self-employment. This hypothesis is not unique to Hispanics or immigrants and may influence the self-employment decision among workers in general. To account for such an effect, we use the regional unemployment rate as a proxy for limited opportunities in the wage/salary sector.

To summarize, the theory proposes several *push* and *pull* factors as main explanations for Hispanic self-employment. Push factors include immigrant status, poor English language facility, and limited opportunities in the wage/salary sector. The pull factors are ethnic enclaves, a culture of entrepreneurship in the country of origin, and human capital endowments. Some of these factors, such as one’s human capital and the status of the wage/salary sector, are likely to affect the self-employment decision of workers in general. Other hypothesized push and pull factors may affect only particular groups of Hispanics, such as discrimination, ethnic enclaves, or a culture of entrepreneurship. Evidence of an impact of these variables would help to explain variation in self-employment across Hispanic groups.

The selection of control variables for our model was guided by Simoes and colleagues’ (2016) comprehensive review of theoretical and empirical studies on the determinants of self-employment. Accordingly, we included several key demographic characteristics in the general model, specifically gender, marriage, and the presence of children. Furthermore, we controlled for personal wealth measured with two binary variables: the family’s investment income (the sum of interest income, dividend income, and rental income) and whether the person’s family owns the home or is in the process of buying the house in which it resides (reference category is renting). Our additional control variables represented the local opportunity structure, as we included college graduation rates, a binary variable indicating urban area, region binary variables, and industrial specialization.

Descriptive statistics in Table 1 shows substantial variation across Hispanic origin groups on nearly all variables. We observe differences in the self-employment rate, earnings, human and financial capital, citizenship status, and regional concentration. The lowest self-employment rates are for people from Puerto Rico (5%) or Mexico (8%), while workers from Southern South America have the highest rate (17%). Average earnings vary by country or region groups as well. In both sectors, workers from Spain and Southern South America have the highest average earnings, while those from Central America have the lowest average earnings. Measures of human capital (educational attainment and English proficiency) differ substantially by origin. By these measures, workers with origin Colombia, Puerto Rico, Spain, or Southern South America have the highest human capital, while those from Central American countries have the lowest human capital. Concerning citizenship status, nearly all workers who reported Puerto Rican ancestry are U.S. citizens, as would be expected, but only 40% of Central Americans were citizens. The variety in ethnic enclaves illustrate intriguing trends. Mexicans have very low levels of concentration of people from their own country of origin, while Cubans and Dominicans live in PUMAs with the highest average concentration. Finally, the data show patterned variation in the region of residence. Workers originating from Mexico mostly reside in the west and the south, Dominicans mainly in the northeast, and people from the Andes and Venezuela mostly in the south and northeast. These descriptive statistics show notable diversity among Hispanic groups. Accordingly, our empirical analysis treats the country/region groups separately to investigate the role of Hispanic origin in self-employment.

**Table 1.** Descriptive statistics for select model variables

| Variable                    | Mexico              | Puerto Rico        | Cuba               | Other Central America | El Salvador         | Southern South America | Andes and Venezuela | Colombia           | Spain              | Dominican Republic |
|-----------------------------|---------------------|--------------------|--------------------|-----------------------|---------------------|------------------------|---------------------|--------------------|--------------------|--------------------|
| Self-employment rate        | 8.185<br>(0.113)    | 4.994<br>(0.236)   | 12.735<br>(0.519)  | 11.528<br>(0.438)     | 10.785<br>(0.468)   | 17.147<br>(1.090)      | 12.440<br>(0.564)   | 13.369<br>(0.720)  | 9.930<br>(0.617)   | 8.465<br>(0.496)   |
| Self-empl. earnings (\$)    | 33,669<br>(721)     | 43,959<br>(2,598)  | 49,525<br>(2,900)  | 29,023<br>(1,414)     | 30,222<br>(1,924)   | 53,986<br>(5,061)      | 36,939<br>(2,041)   | 38,615<br>(2,861)  | 63,806<br>(5,164)  | 39,145<br>(4,438)  |
| Wage earnings (\$)          | 33,219<br>(125)     | 40,949<br>(417)    | 44,169<br>(790)    | 31,910<br>(424)       | 30,719<br>(397)     | 60,894<br>(2,305)      | 43,343<br>(752)     | 45,796<br>(1,101)  | 52,191<br>(1,036)  | 32,754<br>(530)    |
| Age (years)                 | 38.485<br>(0.045)   | 38.900<br>(0.123)  | 42.576<br>(0.169)  | 38.196<br>(0.146)     | 39.211<br>(0.160)   | 42.299<br>(0.324)      | 41.511<br>(0.181)   | 41.759<br>(0.241)  | 41.817<br>(0.254)  | 39.418<br>(0.205)  |
| Female                      | 0.405<br>(0.002)    | 0.478<br>(0.005)   | 0.433<br>(0.006)   | 0.378<br>(0.006)      | 0.411<br>(0.006)    | 0.435<br>(0.013)       | 0.436<br>(0.007)    | 0.505<br>(0.009)   | 0.474<br>(0.010)   | 0.510<br>(0.008)   |
| Married                     | 0.519<br>(0.002)    | 0.432<br>(0.006)   | 0.526<br>(0.008)   | 0.465<br>(0.007)      | 0.485<br>(0.008)    | 0.591<br>(0.015)       | 0.531<br>(0.009)    | 0.520<br>(0.011)   | 0.499<br>(0.011)   | 0.443<br>(0.010)   |
| Number children             | 1.139<br>(0.006)    | 0.881<br>(0.013)   | 0.748<br>(0.015)   | 0.921<br>(0.016)      | 1.042<br>(0.019)    | 0.886<br>(0.031)       | 0.925<br>(0.019)    | 0.788<br>(0.021)   | 0.813<br>(0.024)   | 0.934<br>(0.020)   |
| Years education             | 11.333<br>(0.015)   | 13.250<br>(0.028)  | 13.593<br>(0.046)  | 10.549<br>(0.065)     | 10.151<br>(0.073)   | 14.121<br>(0.095)      | 13.423<br>(0.061)   | 13.846<br>(0.071)  | 14.121<br>(0.055)  | 12.467<br>(0.060)  |
| College degree              | 0.116<br>(0.001)    | 0.224<br>(0.005)   | 0.324<br>(0.007)   | 0.135<br>(0.004)      | 0.092<br>(0.004)    | 0.406<br>(0.015)       | 0.329<br>(0.008)    | 0.372<br>(0.011)   | 0.356<br>(0.010)   | 0.191<br>(0.007)   |
| English proficiency         | 0.768<br>(0.002)    | 0.953<br>(0.002)   | 0.765<br>(0.008)   | 0.612<br>(0.008)      | 0.620<br>(0.008)    | 0.904<br>(0.009)       | 0.787<br>(0.008)    | 0.835<br>(0.009)   | 0.989<br>(0.002)   | 0.710<br>(0.009)   |
| Home owner                  | 0.508<br>(0.003)    | 0.453<br>(0.006)   | 0.573<br>(0.009)   | 0.361<br>(0.008)      | 0.456<br>(0.010)    | 0.570<br>(0.016)       | 0.471<br>(0.010)    | 0.510<br>(0.012)   | 0.620<br>(0.012)   | 0.311<br>(0.010)   |
| Investment income (\$1,000) | -104.981<br>(0.685) | -74.665<br>(1.335) | -54.634<br>(1.654) | -94.766<br>(2.014)    | -103.902<br>(2.587) | -65.240<br>(3.122)     | -74.711<br>(2.013)  | -55.555<br>(2.069) | -62.759<br>(2.453) | -76.504<br>(2.368) |
| Naturalized citizen         | 0.140<br>(0.001)    | 0.011<br>(0.001)   | 0.345<br>(0.007)   | 0.231<br>(0.006)      | 0.266<br>(0.007)    | 0.372<br>(0.015)       | 0.373<br>(0.008)    | 0.442<br>(0.011)   | 0.061<br>(0.005)   | 0.405<br>(0.009)   |
| Birth citizen               | 0.493<br>(0.002)    | 0.975<br>(0.002)   | 0.361<br>(0.008)   | 0.178<br>(0.005)      | 0.171<br>(0.006)    | 0.272<br>(0.013)       | 0.211<br>(0.007)    | 0.253<br>(0.010)   | 0.865<br>(0.007)   | 0.276<br>(0.009)   |

| Variable               | Mexico           | Puerto Rico      | Cuba              | Other Central America | El Salvador      | Southern South America | Andes and Venezuela | Colombia         | Spain            | Dominican Republic |
|------------------------|------------------|------------------|-------------------|-----------------------|------------------|------------------------|---------------------|------------------|------------------|--------------------|
| Ethnic enclave         | 3.509<br>(0.011) | 5.590<br>(0.073) | 40.941<br>(0.722) | 4.806<br>(0.097)      | 8.030<br>(0.145) | 6.042<br>(0.250)       | 7.861<br>(0.206)    | 8.421<br>(0.220) | 8.565<br>(0.445) | 27.742<br>(0.700)  |
| Northeast              | 0.030<br>(0.001) | 0.477<br>(0.006) | 0.097<br>(0.005)  | 0.190<br>(0.007)      | 0.155<br>(0.008) | 0.268<br>(0.015)       | 0.440<br>(0.010)    | 0.347<br>(0.012) | 0.129<br>(0.008) | 0.793<br>(0.008)   |
| Midwest                | 0.107<br>(0.001) | 0.096<br>(0.004) | 0.037<br>(0.003)  | 0.074<br>(0.005)      | 0.037<br>(0.004) | 0.083<br>(0.010)       | 0.055<br>(0.005)    | 0.044<br>(0.005) | 0.069<br>(0.006) | 0.015<br>(0.003)   |
| South                  | 0.350<br>(0.002) | 0.349<br>(0.006) | 0.786<br>(0.007)  | 0.455<br>(0.008)      | 0.437<br>(0.010) | 0.414<br>(0.016)       | 0.366<br>(0.009)    | 0.504<br>(0.012) | 0.253<br>(0.010) | 0.171<br>(0.008)   |
| West                   | 0.513<br>(0.002) | 0.078<br>(0.003) | 0.080<br>(0.004)  | 0.281<br>(0.007)      | 0.371<br>(0.009) | 0.236<br>(0.013)       | 0.138<br>(0.006)    | 0.106<br>(0.007) | 0.550<br>(0.011) | 0.021<br>(0.002)   |
| Number of observations | 101,634          | 13,643           | 6,921             | 9,285                 | 7,102            | 1,924                  | 6,113               | 3,796            | 3,754            | 4,947              |

Source: Fisher and Lewin (2018).

### *Summary of the Results*

Our empirical model for examination of the specific factors that push and pull Hispanic workers into self-employment, as described above, reveals the following key findings. In the following discussion, we describe the change in probability of selecting self-employment from our indicator variables as calculated from the marginal effects in the probit model divided by the predicted probability of self-employment (0.0858).

### *Disadvantage Theory*

We find evidence that only naturalized citizens are pushed into self-employment. This group has lower earnings than birth citizens in the wage sector, but there are no differences in the self-employment earnings of naturalized and birth citizens. Furthermore, self-employment participation is 7% higher for naturalized than birth citizens. Non-citizens have a 52% higher probability of being self-employed compared to birth citizens, but findings from the estimated earnings function do not support this status as a push factor.

Our results reveal a larger earnings penalty in the self-employment than in the wage/salary sector for non-citizens. Though not testable with the current dataset, this finding could be driven by the sub-sample of non-citizens who lack legal status, as they may have a higher earnings penalty in the self-employment sector. Undocumented immigrants might be pushed into self-employment due to barriers to work in the wage/salary sector. In turn, they may be relegated to low-return businesses, perhaps due to limited access to many formal institutions which are important to entrepreneurs, such as the court system (Fairlie & Woodruff, 2010) and credit institutions.

Our findings demonstrate the pivotal role of language proficiency. Results show that Hispanic workers who do not speak English or speak English poorly have lower annual earnings in the self-employment sector and the wage/salary sector, in which we observed an even larger earnings penalty. Thus, workers with poor English have monetary incentive to engage in self-employment. Despite conditions that should encourage entrepreneurship, results for self-employment participation suggest considerable barriers to entering the sector, as evidenced by the finding that Hispanics who speak no English have a 40% lower probability of self-employment participation than those with English proficiency.

### *Limited opportunities in the wage/salary sector*

The unemployment rate is found to have no association with wage earnings and a small negative association with self-employment earnings. Our model shows only a small positive association with self-employment participation of 6% increased probability. Thus, we do not find support for this hypothesis as a push factor.

### *Human Capital*

The model implies a complex influence of human capital on self-employment decisions. Our results show positive returns to experience (as proxied by age) and education in both sectors. However, we find even greater returns for wage work than self-employment. Human capital appears to shape self-employment decisions as well. Hispanic workers with a college degree are 10% more likely to be self-employed compared with those with less than a college degree and a one-year increase in worker age shows a 4% increase in self-employment propensity. These findings are inconsistent with workers being pulled into self-employment strictly on earnings grounds due to their human capital, but

alternative explanations are possible. Perhaps Hispanic workers with high human capital are pulled into self-employment for non-monetary reasons such as greater work autonomy and flexible work schedule (Lofstrom & Bates, 2009).

### *Ethnic Enclave*

Though suggested as a central factor in shaping self-employment (Castles et al., 2014; Portes & Rumbaut, 2014), we find no evidence of ethnic enclaves pulling workers into self-employment. Although the ethnic enclave variable has a positive and statistically significant association with self-employment participation, the marginal effect is so small it is not meaningful (less than 0.3% increase in likelihood). Further contradicting any pull effect, ethnic enclaves are found to be negatively associated with earnings, including those in self-employment. Aguilera (2009) similarly found that operating a business in an ethnic enclave offered no economic advantage for Mexican and Cuban immigrants.

### *Ethnicity or home country self-employment*

Ethnicity clearly matters to self-employment participation within the broad category of Hispanic. Portes and Rumbaut (2014) found the self-employment rate of immigrants from Mexico to be among the lowest of any racial or ethnic category in the U.S. Our study, with a more detailed Hispanic category, shows individuals who reported their Hispanic origin as Mexican appear to face the greatest barriers to self-employment compared with those of other Hispanic origins. Findings appear to suggest Dominican ancestry as a push factor into self-employment due to unfavorable earnings in the wage work sector. In contrast, workers from other countries, particularly those of Colombian or Southern South American origin, appear to be pulled into self-employment, but not for monetary reasons. These groups have higher earnings in the wage/salary sector than those of Mexican origin. Despite effect on wage/salary earnings, Hispanic origin appears to have little influence on self-employment earnings. The model controls for variables found consistently associated with self-employment that may also vary across Hispanic origin, such as age, gender, immigrant status, and financial capital. Thus, the statistical and substantive significance of many of the country-of-origin binaries reflects unobservable factors which plausibly include the role of culture.

### *Recommendations*

Several policies and research recommendations emerge from the study findings. The first set of policies address the potential labor market discrimination among Hispanics, particularly immigrants without U.S. citizenship. As lack of citizenship pushes Hispanics to entrepreneurship, self-employed Hispanic immigrants should benefit significantly from citizenship classes and legal assistance with the naturalization process and employment discrimination. The Office of Special Counsel for Immigration-Related Unfair Employment Practices offers a worker hotline and an online format to filing a charge. However, most immigrants are not familiar with these legal measures. Efforts should increase awareness of the law and its overseeing institution among Hispanic immigrants.

To mitigate the influence of citizenship status, Hispanic businesses can also be supported by comprehensive immigration reform. Specifically, policies that offer residency and eventual citizenship to legal immigrants would lessen this disadvantage, although we acknowledge that such changes are unlikely in the near term. Many Hispanic immigrants who enter the U.S. legally start their business without permanent residency. This temporary status limits their access to commercial loans and

discourages long-term planning. As a result, the possibility to grow their business and hire staff is limited.

Second, a variety of educational programs may be warranted, although program implementers need consider that not all Hispanic origin groups are equally supported by such programs, as evidenced by the important role of specific Hispanic origin in our model (e.g., Mexican vs. South American origin). Youth programs that work closely with Hispanic students, parents, teachers, and school administrators to reduce the Hispanic high school dropout rate will be necessary for future Hispanic entrepreneurs given the important role of education. Other important programs would increase access to postgraduate business management and leadership programs at universities and community colleges to further build Hispanic human capital endowments.

The third set of policies focus on financial capital, which our results suggest may be particularly relevant to entrepreneurs of Mexican origin. Identifying policies for Mexican Americans and Mexican immigrants is vital given their population share as well as evidence from our study that they have low average earnings in the wage/salary sector but also face significant barriers to self-employment participation. To address these economic deficiencies, Hispanic-serving organizations engaged in micro-credit, financial outreach education, and business planning may have important roles to play. With limited financial capital, prospective business owners may face credit guarantee issues given the relatively small and high-risk configuration their businesses tend to be.

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## Some Stylized Facts on Hispanic Labor Supply After the Great Recession

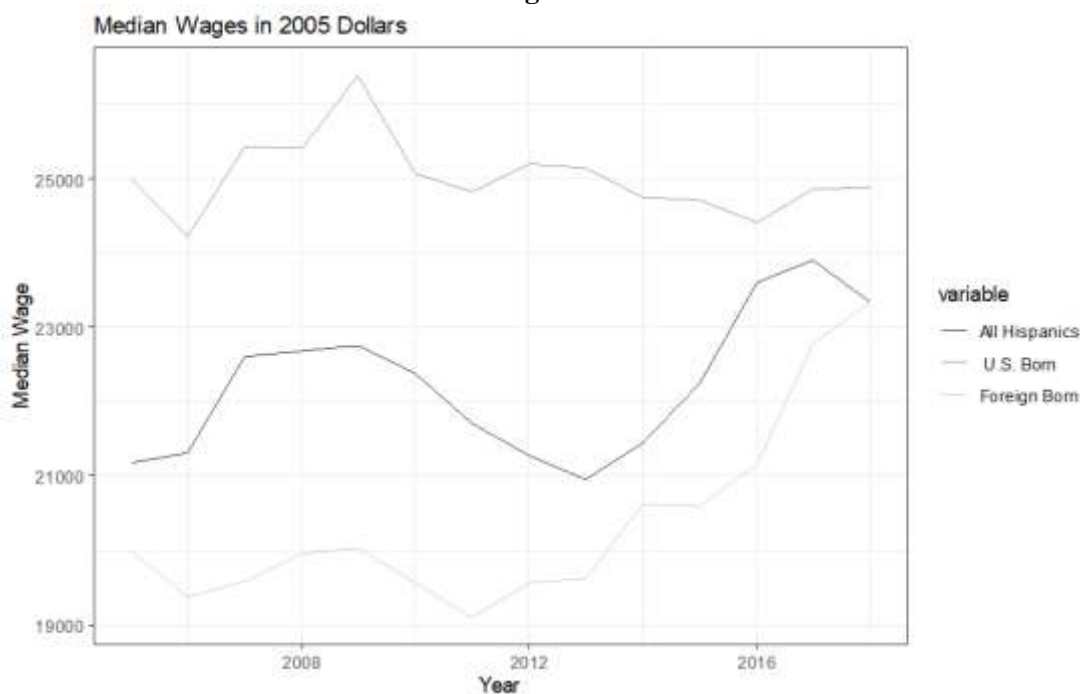
Alfredo A. Romero<sup>1</sup>

With over a decade since the Great Recession and with increasing uncertainty about the economy’s current position in the business cycle, it is beneficial to look at Hispanic labor supply over the last decade. I provide some stylized facts about trends in the working Hispanic population both amongst U.S. born Latinos and foreign-born Latinos calculated from the Current Population Survey (CPS) and from the Annual & Social Economic Supplement (ASEC) using IPUMS (Ruggles, Flood, Goeken, Grover, Meyer, Pacas and Sobek, 2019). Amongst the most salient findings is the fact that the wage disparity between the U.S. born population and the foreign-born population has been closing since the economic recovery started at the beginning of the decade.

### Income gap

The Great Recession, officially starting in December of 2007 and ending in June of 2009, decreased real GDP by 4.3 percent, the largest decline since postwar era. During its 18 months, Hispanic unemployment increased, for all Hispanic groups, from around 4.7 percent to right above 12 percent; affecting primarily Foreign-born Latinos, whose unemployment rate peaked at 14 percent, as opposed to U.S. born Latinos, whose unemployment rate peaked at 11 percent (Kochhar and Krogstad, 2017). Since then, both groups have started a steady recovery but of different magnitudes and timing and for both economic and demographic reasons.

Figure 1



Author’s calculations using data from the CPS and the ASEC. Individuals are at least 15 years of age and in the labor force at the time of the survey.

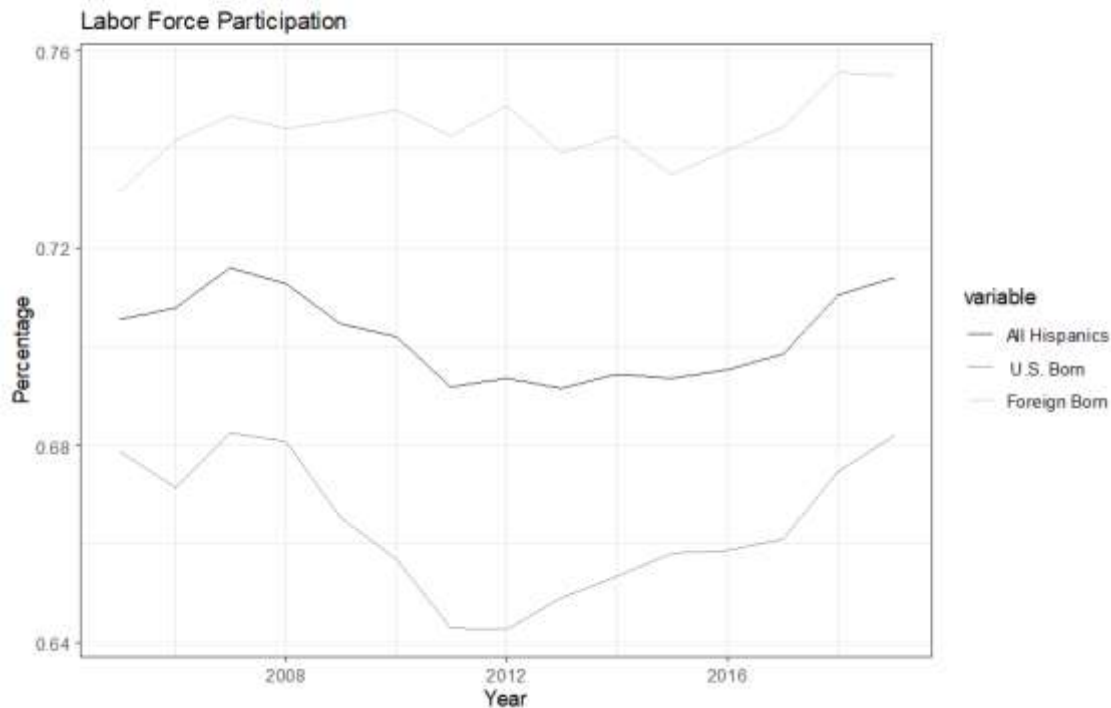
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Since the Great Recession, the economic recovery has benefited both groups, but not proportionally. As a group, the median wage for Hispanic workers has increased, after adjusting for inflation, but as it can be seen from Figure 1, most of the increase is driven from Foreign-born Latinos. In fact, in real terms, median wages for U.S. born Latinos have remained steady at pre-recession levels but significantly below their peak in the immediate recovery from the recession. Foreign-born Latinos median wages in real terms have consistently increased since the beginning of the decade. In fact, it seems that the income gap between foreign-born and U.S.-born Latinos has been steadily shrinking. This differential can be the result of changes in the labor force participation of the groups or in their composition.

*Economic stylized facts*

The Labor Force Participation rate of foreign-born Latinos remained relatively constant during and around the recession years and has just recently started to tick up (Figure 2). For U.S. born Latinos, the labor force participation rate seems to have decreased by almost 4 percentage points to recently recover to pre-recession levels. It could be possible that the composition of the labor force participation for foreign born Latinos changed (a substitution of lower-skilled jobs for higher-skilled jobs) and this has been driving the higher wages without necessarily changing the rate. What it is more likely, is that changes in the labor force participation alone cannot explain the wage differential observed between both groups.

**Figure 2**

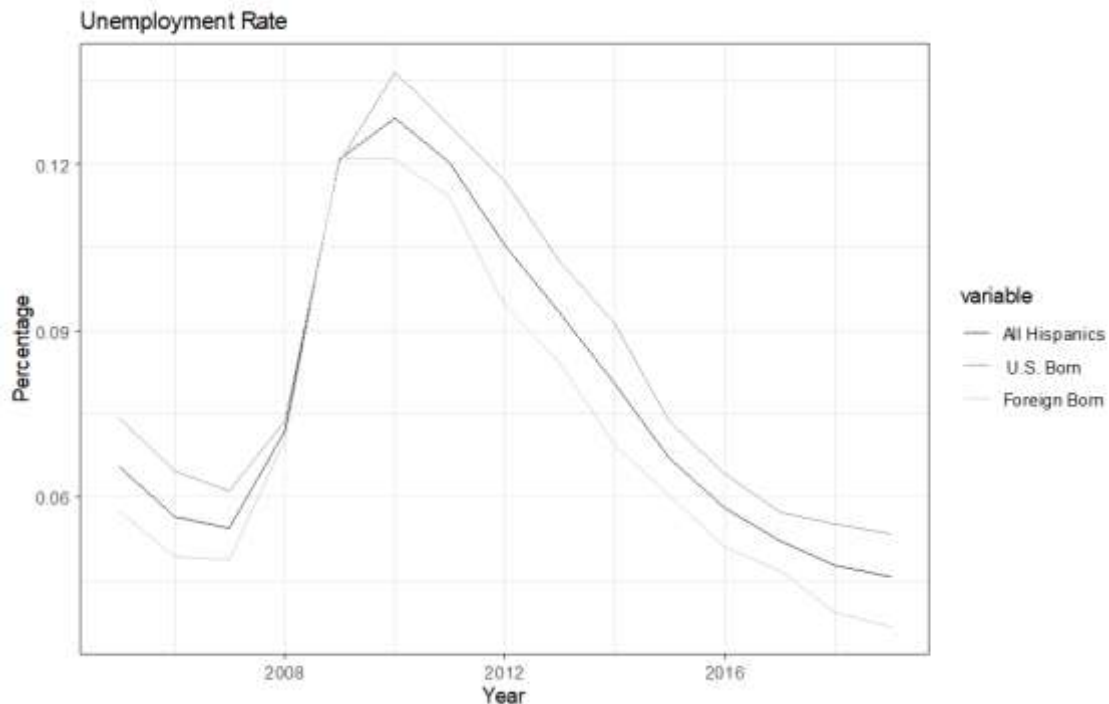


Author’s calculations using data from the CPS and the ASEC. Individuals are at least 15 years of age and in the labor force at the time of the survey.

For the wage differential to reduce with no changes in the labor force participation rate it could be the case that the composition of it has changed at different rates for the two Hispanic groups. We would expect not only a decrease in the unemployment rate for both groups but a faster decrease in the unemployment rate for the foreign-born group. Figure 3 shows the unemployment rate for both groups. From looking at the graph it seems that foreign-born unemployment rate has decreased considerably more than that for U.S.-born Latinos. This can in part explain the change in the wage differential observed over the last decade.

If indeed there is a shortage for the skills offered by foreign-born Latinos, this can explain the lower unemployment rate and the higher wages. It could also be the case that foreign-born Latinos are working longer hours in addition to a higher proportion of them getting a job. To see this, we calculated the reported number of hours for both groups.

**Figure 3**



Author's calculations using data from the CPS and the ASEC. Individuals are at least 15 years of age and in the labor force at the time of the survey.

**Table 1. Hours Worked per Week on Average**

| Year | All Hispanics | U.S. Born | Foreign Born |
|------|---------------|-----------|--------------|
| 2006 | 39.44         | 38.87     | 39.93        |
| 2007 | 39.37         | 38.75     | 39.88        |
| 2008 | 39.12         | 38.38     | 39.77        |
| 2009 | 38.28         | 38.02     | 38.52        |
| 2010 | 37.93         | 37.60     | 38.21        |
| 2011 | 38.19         | 37.84     | 38.50        |
| 2012 | 38.22         | 37.76     | 38.64        |
| 2013 | 38.30         | 37.92     | 38.67        |
| 2014 | 38.40         | 37.87     | 38.94        |
| 2015 | 38.57         | 37.94     | 39.22        |
| 2016 | 38.52         | 37.99     | 39.09        |
| 2017 | 38.56         | 37.98     | 39.18        |
| 2018 | 38.81         | 38.27     | 39.43        |
| 2019 | 38.91         | 38.36     | 39.54        |

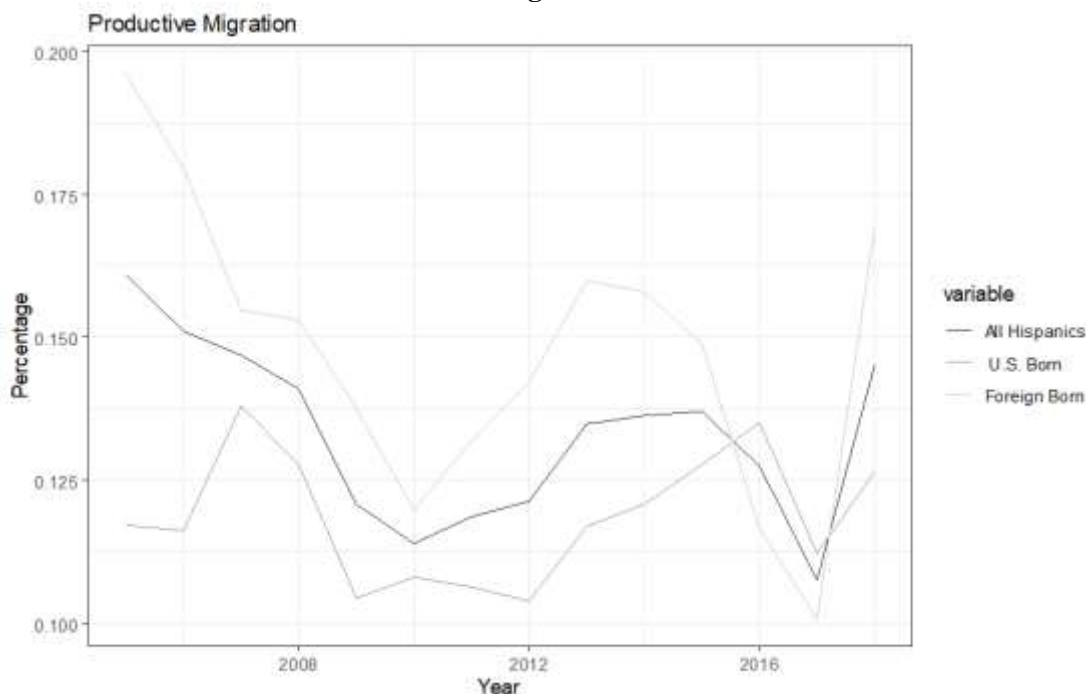
The number of hours worked per week decreased for both groups. From their peak before pre-recession levels, for U.S. born Latinos the number of hours decreased by 3.2 percent whereas the number of hours worked for foreign-born Latinos decreased by 4.49 percent. From their troughs, however, the number of hours increased by roughly 2 percent for U.S.-born Latinos and by almost 3.5 percent for foreign-born Latinos.

It does not seem, however, that the number of hours worked per week will suffice to account for the observed wage differential between the groups. While different, they seem to be consistently tracking each other.

*Demographic stylized facts*

At least two other explanations can be added. Foreign-born Latinos are usually more movable than U.S. born Latinos. Conditioning on productive mobility, Figure 4 shows that foreign-born Latinos are in general more willing to relocate than U.S.-born Latinos. This percentage represents the number of people that moved for work-related reasons out of the total universe of individuals that move for any reason over the preceding year. From the beginning of the Great Recession to the first few years afterwards, productive mobility decreased considerably. This is consistent with individuals taking a wait-and-see attitude towards mobility at least until things settle down (Romero and Snarr, 2015). The pace of productive mobility recovered earlier for foreign-born Latinos and continued an upward trend at the beginning of the decade. Notice something interesting that occurred in the time leading to and right after the 2016 election, for all Hispanic groups, productive mobility significantly decreased. It would be mere speculation to ascribe the decrease in productive mobility to the growing anti-immigrant sentiment resulting from the 2016 election but it must be considered a possible explanation of the empirical regularity observed.

Figure 4



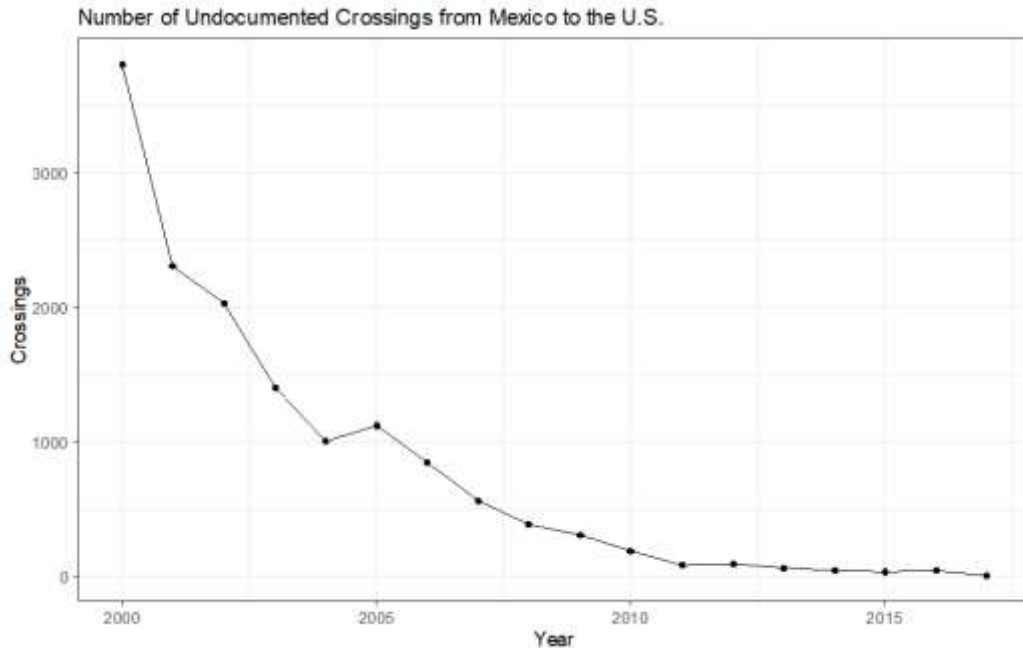
Author’s calculations using data from the CPS and the ASEC. Individuals are at least 15 years of age and in the labor force at the time of the survey.

Finally, there is the possibility that foreign born Latinos are enjoying increases in wages as a consequence of a slowdown on migration both of documented and undocumented immigrants. Putting together data from the Mexican Migration Project (a collaborative research project based at the Princeton University and the University of Guadalajara), it can be seen that the number of undocumented workers crossing the United States had already started to decrease before the beginning of the great recession (Figure 5). If undocumented immigrants and foreign-born Latinos compete for the same jobs within the same industries, it can be argued that the increase in median wages is a demographic transition story rather than an economic recovery story. This would be particularly true if undocumented immigrants and foreign-born immigrants shared similar education levels and other sociodemographic characteristics that would make them substitutable in Latino-laden industries like farming and construction.

### Conclusion

All in all, the preceding stylized facts provide us with a roadmap for future Hispanic labor supply research. Several research agendas can be created by simply parceling out every component of the previous graphs and tables. Foreign-born Latinos, for instance, are not a monolithic group, and their composition has been changing over the last few decades as well. Additionally, the average longevity of foreign-born Latinos has also been changing due to the evolving demographic transitions. Number of years of work experience for foreign-born Latinos has increased as a result of the slowdown of new immigrants and the repatriation of relatively new immigrants. In addition, it is known that labor market decisions between males and females are different, being the latter group significantly harder to model. It is also entirely possible that place of origin plays a subordinate role once additional factors like age, education, industry, and region are taken into account.

**Figure 5**



Author’s calculations using data from the Mexican Migration Project. Individuals are migrant workers who had their first crossing to the U.S. starting in 2000. Data is weighted using the person weights from the dataset.

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**APPENDIX**

Foreign-born Latinos are Latinos born outside of the United States, Puerto Rico or other U.S. territories to parents neither of whom was a U.S. citizen. U.S.-born Latinos are Latinos who are U.S. citizens at birth.

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