

❖ *Latinos are targets of a growing trend of abuse by private citizens and local law enforcement officials, acting "under color of law," because of their immigration status — real or perceived. Inflamed political rhetoric and immigrant-bashing have created an atmosphere that "gives license" to such acts of violence. Summaries of some of the more egregious cases are as follows:*

- ◆ **Salt Lake City, UT, 4/25/97.** A group of 75 heavily armed police officers and federal agents burst through the metal door of Rafael Gomez' tortilla factory and Mexican food store. Wearing scarves over their faces, with bulletproof vests and brandishing rifles and pistols, the law enforcement agents ordered some 80 employees down on the floor. Gomez, who was standing near the door when the police arrived, was struck in the face with what appears to have been the butt of a rifle. As he fell to the ground, he struck his head against the concrete floor and was later handcuffed by police. When he tried to lift himself to see what was happening, he was kicked in the back of the head and was ordered to stay down. Gomez says that police later pointed a rifle at the head of his six-year-old son. His secretary was dragged by her hair across the floor. According to the police, they had been tipped off by an anonymous source that the tortilla factory was being used as a distribution center for drugs and illegal weapons. However, from the police point of view the raid proved to be a complete failure. No street drugs or weapons were found. So far, police have made no apologies for the raid, which appears to have been motivated by the ethnic nature of the business and its employees. (*The Salt Lake City Tribune*, 5/18/97.)
- ◆ **Hamblen County, TN, on or about 8/19/97.** Tennessee Highway Patrol tipped Miami-based Border Patrol that it would be "interested" in the traffic on highway 160 in the Lakeway area. Border Patrol and police set up a road-block and requested documents only from Hispanics. One U.S. citizen, a native of California, was pulled out of his car by his hair, punched in the face, and arrested. Apparently, his fingernails were long and impeded the border patrol's ability to take his fingerprints. The patrol officer used a pocket knife to cut Mr. Hernandez fingernails, cutting his finger in the process. Mr. Hernandez believes he was singled out and pulled over because of his ethnicity and that the police and Border Patrol arrested him because, like most Americans, he could not instantly produce a document to prove his citizenship. (Account of Dennis Hernandez.)
- ◆ **New York City, NY, 9/1/97.** Cesar Diaz, a Mexican immigrant, was physically assaulted by three men at Panarella's Restaurant on the Upper West Side, where he worked as a busboy. The attack occurred because Mr. Diaz showed up to work 10 minutes late. Mr. Diaz' boss, his cousin, and a friend are the accused attackers. There were numerous witnesses to the event, which occurred in the restaurant's second floor stairway and which left Mr. Diaz hospitalized with a broken nose and eight stitches. Mr. Diaz, like the majority of Latino employees at the restaurant, are owed back wages from the owner and get paid an average of less than \$3 an hour. The police have given little attention to his plight. (Latino Workers Center, e-mail posting, 9/5/95.)
- ◆ **New York City, NY, 7/25/97.** A group of 55 deaf, undocumented Mexican nationals were smuggled into the U.S. and forced to peddle trinkets on city subways, and then to turn all of their earnings over to the defendants. The defendants held the vendors in virtual slavery, keeping them in two cramped apartments and subjecting them to beatings, food deprivation, and sexual abuse. The defendants were able to exploit their victims because of their immigration status and their disability. (*Washington Post*, 7/25/97.)

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- ◆ **Riverside County, CA, 4/96**, two Riverside County, California sheriff's deputies were videotaped beating two suspected undocumented Mexican immigrants. The man and woman were continuously struck with batons and the woman was pulled to the ground by her hair. (LCEF/LCCR, *Cause for Concern: Hate Crimes in America*, January 1997.)
- ❖ **Delegating authority to enforce immigration laws to local police will encourage violations of the rights of non-white citizens and residents. Under last year's immigration law, the U.S. Department of Justice has the ability to delegate immigration authority to local law enforcement officers. However, a strong argument can be made that even with ample training, INS agents themselves have been unable to guarantee that the rights of racial and ethnic minorities are not violated in the enforcement of the immigration laws (AFSC, 1995 & 1996 Abuse Reports: Border Patrol and Police, January 1997). It is unrealistic to expect that local law enforcement agencies will do better, especially without adequate training or strict accountability. Furthermore, many local police departments have less than spotless track records when it comes to the use of excessive force against Latinos, and the proposed new policy provides a new avenue for rights violations without concomitant accountability procedures.**
- ❖ **Federal hate crime statistics demonstrate an increasing number of hate crimes against Latinos. According to the FBI's Hate Crimes Statistics, the number of bias-motivated incidents has increased for Hispanics in recent years. In 1993, there were 472 anti-Hispanic offenses reported. By 1995, the number had increased to 680, and although final figures are not in for 1996, the preliminary numbers indicate a notable increase in bias-motivated crimes against Hispanics. Some examples of hate crimes against Latinos in recent years include:**
  - ◆ On November 12, 1994, Graziella Fuentes, 54, was taking her daily one-mile walk through the suburban San Fernando Valley, when eight young males 14 to 17 years old shouted at her that now that Proposition 187 had passed, she should go back to Mexico. After calling her "wetback" and other names, they threw rocks at her, hitting her on the head and back. (LCEF/LCCR, *Cause for Concern: Hate Crimes in America*, January 1997.)
  - ◆ In the summer of 1995, Allen Adams and Tad Page were sentenced to 88 and 70 months, respectively, for their roles in the ethnically-motivated shooting of four Latinos in Livermore, Maine. Three of the shooting victims were migrant laborers working at an egg farm, while the fourth was visiting his ailing mother, a migrant worker. The incident began at a store, where the victims were trying to make a purchase. Adams and Page, who were also at the store, taunted the victims with ethnic epithets, telling them: "Go back to Mexico or [we'll] send you there in a bodybag." After the victims drove away from the store, Adams and Page chased them by car, firing 11 rounds from a nine-millimeter handgun at the victims' automobile. One victim was shot in the arm, while another bullet hit the driver's headrest, just a few centimeters from the driver. (LCEF/LCCR, *Cause for Concern: Hate Crimes in America*, January 1997.)
- ❖ **Underreporting of hate crimes in the Latino community is a severe problem. Social science research shows that hate crimes are less likely to be reported to the police than random crimes. (Herek, Gillis, and Cogan, in press, 1997) One of the reasons, they argue, for this lack of reporting is a concern that the system is biased against the group to which the victim belongs and police authorities will not be responsive to the incident. This is especially true when law enforcement agents, acting "under color of law," are the perpetrators of the crime. A sense of mistrust continues to permeate the community against those who are supposed to be there to protect them.**

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## SOCIAL SECURITY, HISPANIC AMERICANS, & PROPOSED REFORM

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July 1998.\*

### I. The Issue

In a period of 19 years, from 1946 to 1964, America witnessed the birth of 77 million children, the "baby-boomers." In 2011, the oldest of this generation will begin receiving full Social Security benefits, and by 2030, the entire group will be retired.<sup>1</sup> In addition, overall life expectancy is increasing and birth rates are declining. In the 1930s, when the Social Security system was created, the average life expectancy was 61 years, while today average life expectancy is 76 years, and by 2020 it is expected to increase to 78 years. Also, during the baby-boom period (1946-1964), the average family had three children; from 1970-1990 that number had decreased to two children.<sup>2</sup> Taken together, and without appropriate action, these demographic changes pose major challenges to the Social Security system and to the financial and retirement security of the Latino community:<sup>3</sup>

- **A growing gap between what will be collected and what will be distributed.** In 2013, soon after the number of retirees starts increasing by more than one million a year, it is projected that Social Security will begin to pay out more in benefits than it collects in tax revenues.<sup>4</sup> As a result, the federal government will need to begin borrowing from the Social Security trust fund in order to make up the difference. Furthermore, it is projected that in 2032, shortly after the youngest of the baby boomers are of retirement age, the trust fund will be depleted and revenues will support only 75% of guaranteed benefits.<sup>5</sup>
- **A smaller workforce than will be required to support a growing number of retirees.** It is estimated that by 2030, there will be fewer than three persons aged 20 to 64 (compared to five in 1995) for each retired person 65 years and over. Moreover, in 2030, it is estimated that 20% of the population will be 65 years and over, compared to 24% under 20 years of age, and 56% between the ages of 20 and 64. (For comparison purposes, in 1995, only 13% of the population was over the age of 65, compared to 29% under age 20 and 59% between the ages of 20 and 64 years.)<sup>6</sup> By the year 2040, the ratio of retirees to workers will have decreased to fewer than two to one (from over three to one today), and projections show that 25% of the population will be over age 65.<sup>7</sup>

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The source of the potential Social Security problem is the pay-as-you-go nature of the system, by which today's workers are required to provide income for yesterday's workers. The Social Security system basically acts as a pipeline; a worker pays taxes into the system at one end and the system pays benefits to retired persons, surviving spouses and their families, and disabled workers at the other end.<sup>8</sup> However, with current projections indicating the aging of the baby boomers, an increase in life expectancy, a decline in birth rates, and a shrinking workforce, this universal guarantee could be threatened if benefits do exceed revenues and necessary action is not taken.

The potential Social Security problem and proposed reform of the system could have an adverse effect on the Latino community, just as demographic projections indicate that Hispanics will have a significant impact on the preservation of the system.

- **Hispanics: present and future contributors to the Social Security system.** Nearly two-thirds (62.6%) of the total Hispanic population 16 years and over, or 12.7 million, were employed in 1997 and paid an estimated \$24.1 million into the Social Security system.<sup>9</sup> In 1990, Hispanics constituted 8% of the total U.S. workforce, compared to 78% for Whites and 10% for Blacks. By 2010, 2020, and 2030, Latinos are projected to account for 13.2%, 15.2%, and 17.2%, respectively, of all U.S. workers.<sup>10</sup>
- **Hispanics: present and future beneficiaries of the Social Security system.** In 1996, 1.1 million Hispanic elderly received Social Security, which for many was their primary source of income, and averaged \$6,747 in total yearly benefits.<sup>11</sup> In 1997, Hispanics 65 years and over constituted 5.7% of the Hispanic population and 4.9% of the U.S. elderly population.<sup>12</sup> Between 1997 and 2030, the number of Hispanic elderly is expected to triple, and in 2030, Hispanics over age 65 are projected to comprise 11.9% of the Hispanic population and 11.2% of the U.S. elderly population.<sup>13</sup>

Given that Hispanics are a large and growing segment of both the U.S. labor force (contributors to the system) and U.S. elderly population (beneficiaries of the system), NCLR has prepared this issue brief to examine the current impact of Social Security, and of potential changes to the system, on Hispanic Americans.

## II. Social Security Taxes

The Federal Insurance Contributions Act (FICA) is the federal law that requires a worker to pay taxes out of her/his earnings. The federal payroll tax is levied at a flat rate of 15.3%, with the

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<sup>8</sup> According to the Social Security Administration, "workers are considered disabled if they have a severe physical or mental condition that prevents them from working. The condition must be expected to last for at least 12 months or to result in death. Once benefits begin, they continue for as long as the worker is disabled and cannot work."

<sup>9</sup> NCLR roughly estimated the \$24.1 million figure by multiplying median annual earnings by the number of workers earning less than \$65,000 for both Hispanic men and women, and then multiplying the totals by 12.4%, the combined employer- and employee-share of the federal payroll tax earmarked for Social Security.

employer and employee each paying 7.65% on wages and salaries. A worker's obligation to pay payroll taxes ends once total wages and salaries reach \$68,400 (1998 tax year).<sup>14</sup> Taxes paid into the system are held in four separate trust funds, the Federal Old-Age and Survivors Insurance (OASI) Trust Fund, the Federal Disability Insurance (DI) Trust Fund, and the two Medicare trust funds, the Federal Hospital Insurance (HI) Trust Fund, or Medicare Part A; and the Federal Supplementary Medical Insurance (SMI) Trust Fund, or Medicare Part B. Of the 7.65% payroll tax, 5.35% is earmarked for the OASI Trust Fund, 0.85% for the DI Trust Fund, and 1.45% for the HI Trust Fund.<sup>15</sup> In other words, out of every dollar paid into the system, 69 cents is allocated toward retirement and survivors' benefits, 12 cents toward disability benefits, and 19 cents toward Medicare (hospital) benefits.<sup>16</sup> Therefore, the Social Security tax rate, equivalent to the portion of the federal payroll tax rate allotted to Social Security, is 12.4%.

### **Impact on Hispanics**

Every working Hispanic, from a sales representative at a clothing store earning \$15,000 annually to a principal of a high school earning \$50,000 per year, pays Social Security taxes. However, the share of income paid into the system is proportionately higher for low-income individuals than for high-income individuals for three reasons. First, the Social Security tax rate of 12.4% is applied to all persons no matter what their level of earnings (below \$68,400 in 1998).<sup>17</sup> Second, the Social Security tax is only levied on wages and salaries, which comprise a larger share of income for low-income (and Hispanic) persons than for high-income persons, who tend to garner a greater share from investments, estates, and trusts.<sup>18</sup> Third, there are no deductions or exemptions to the Social Security tax base that individuals can claim to help reduce the amount of their income subject to the tax and, in turn, tax liability.<sup>19</sup> Consequently, working Hispanic families bear a relatively heavier burden of the Social Security tax system, as shown in Figure 1.

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\* As noted in NCLR's *State of Hispanic America 1996, Burden or Relief? The Impact of Tax Policy on Hispanic Working Families*, while the federal tax is imposed on both employees and employers alike, ultimately the burden of the payroll tax falls totally on employees. This assumption is supported by studying both the short-and long-run effects of the employer share of the federal payroll tax. In the short run, the employer share of the payroll tax either reduces employer profits or increases consumer prices; but, over the long run, either employee wages are reduced or consumer prices increased. Therefore, since the employer share of the federal payroll tax eventually increases consumer prices or decreases employee wages, it can be argued that the entire federal payroll tax burden falls ultimately on employees/consumers.

† Social Security taxes do not fund the SMI Trust Fund.

‡ While there are no specific federal payroll tax deductions or exemptions, the federal Earned Income Tax Credit (EITC) does help offset payroll tax liability. For example, over one-third (34.9%) of Hispanic households received the EITC in 1996, and averaged \$1,725 in EITC benefits per household.

**Figure 1**  
**Social Security Tax Burden**  
**by Race/Ethnicity**  
**1996**

	<b>Hispanic</b>	<b>White</b>	<b>Black</b>
	<u>Households</u>	<u>Households</u>	<u>Households</u>
Median Income	\$24,906	\$37,161	\$23,482
Wages & Salaries	\$20,921	\$27,945	\$18,856
FICA (12.4%)	\$2,594	\$3,465	\$2,338
<b>Share of Income</b>	<b>10.4%</b>	<b>9.3%</b>	<b>10.0%</b>

Source: U.S. Bureau of the Census and Consumer Expenditure Survey.

Given that wages and salaries comprised 84.0% of income for Hispanic, 75.2% for White, and 80.3% for Black households in 1996, the average Social Security tax rate is higher for Hispanic households. Specifically, 10.4% of Latino median household income is captured by the Social Security tax, compared to 9.3% for White households and 10.0% for Black households.

Moreover, each household's total income is decreased by \$2,594 for Hispanics, \$3,465 for Whites, and \$2,338 for Blacks by Social Security tax contributions. As a result, the median amount of income remaining for consumption, saving, and investing is \$22,312 for Hispanic households, \$33,696 for White households, and \$21,144 for Black households.<sup>20</sup> **Therefore, in its current form, the federal Social Security tax further reduces the already low incomes of working Latinos and their families and disproportionately limits their consumption, saving, and investing ability, in part contributing to high Hispanic poverty.** In 1996, 20.9% of Hispanic working families were poor, compared to 6.6% of comparable White families and 17.7% of comparable Black families.<sup>21</sup>

### III. Social Security Benefits

In February 1998, 43.9 million persons received benefits from Social Security. Of these beneficiaries, 27.2 million (62.0%) were retired workers receiving an average of \$765 a month in benefits, 5.2 million (11.9%) were widows/widowers receiving an average of \$732 a month, and 4.5 million (10.3%) were disabled workers receiving an average of \$721 a month.<sup>22</sup>

The benefits a worker receives when s/he retires or becomes disabled depend on the length of time worked, as well as the level of reported wages and salaries earned, during her/his lifetime. For example, currently the age at which a retired worker becomes eligible to begin receiving full Social Security benefits is 65 years, or reduced benefits as early as age 62.<sup>23</sup> To qualify, a

\* The remaining 15.8% receiving benefits in February 1998 were wives and husbands (7.1%) and children (8.7%).

† The retirement age is slated to increase gradually to 67 by 2027.

worker must have made at least ten years of contributions to the system, and have earned at least 40 Social Security credits.<sup>24</sup>

*While low-wage retired workers get back a smaller amount in Social Security benefits than high-wage retired workers, the system compensates the burdensome nature of the payroll tax by replacing a greater share of a low-wage worker's lifetime earnings. The proportion of lifetime earnings replaced by the system is about 60% for a low-wage earner, 42% for an average-wage earner, and 26% for a high-wage earner.<sup>25</sup> Numerically, in 1998, a low-wage worker [annual total of Average Indexed Monthly Earnings (AIME), \$10,524] received an average of \$568 in monthly retirement benefits, an average-wage worker (annual total of AIME, \$23,376) received \$938 a month, and a high-wage worker (annual total of AIME, \$35,160) received \$1,210 a month.<sup>26</sup>*

**Figure 2**  
**Sources of Income**  
**Persons 65 Years and Over**  
**1996**

<u>Types of Income</u>	<u>Hispanic</u>	<u>White</u>	<u>Black</u>
<b>Median Income</b>	<b>\$8,036</b>	<b>\$12,921</b>	<b>\$8,656</b>
Earnings	19.8%	17.0%	16.2%
<b>Wages and Salaries</b>	<b>14.5%</b>	<b>15.1%</b>	<b>14.2%</b>
<b>Social Security</b>	<b>46.9%</b>	<b>41.8%</b>	<b>46.7%</b>
SSI	6.3%	0.6%	2.9%
Veterans' Benefits	0.0%	1.1%	2.0%
Survivors' Benefits	0.0%	2.1%	1.8%
Disability Benefits	0.0%	0.4%	0.0%
<b>Pensions</b>	<b>13.5%</b>	<b>18.3%</b>	<b>18.1%</b>
Interest	0.0%	4.5%	2.4%
Dividends	4.4%	11.3%	7.2%
Rents, estates, or trusts	2.0%	2.2%	1.5%

Source: U.S. Bureau of the Census.

### **Impact on Hispanics**

In 1997, the median weekly earnings for Hispanic full-time workers was \$351, compared to \$519 for Whites, and \$400 for Blacks.<sup>27</sup> **Therefore, since Hispanics have relatively lower earnings levels, they are both more likely to receive a lesser amount in, but a greater share of income**

\* As stated by the Social Security Administration, "a worker earns Social Security credits when s/he works in a job covered by Social Security. During a person's working years, wages and salaries are posted to his/her Social Security record and s/he receives Social Security earnings credits based on those wages. In 1998, a worker receives one Social Security credit for each \$700 of earnings, up to the maximum of four credits per year. In future years, the amount of earnings needed for a credit will rise as average earnings levels rise."

**from, Social Security, than either Whites or Blacks.** This concept is illustrated in Figure 2, which shows that Social Security constitutes a greater proportion of elderly Latinos' incomes compared to their White and Black counterparts. In 1996, 46.9% of income for Hispanic elderly came from Social Security benefits, 18.6% from wages and salaries, 13.5% from pensions, and 6.3% from Supplemental Security Income (SSI). In comparison, Whites received 41.8%, 15.1%, 18.3%, and 0.6% of income from Social Security, wages and salaries, pensions, and SSI, respectively. (See Figure 2 for the proportion Blacks received from each.) Furthermore, 1.1 million Hispanics 65 years and over -- 74.0% of the Hispanic elderly population -- received an average of \$562 a month from Social Security in 1996. In contrast, 91.4% of White elderly and 82.7% of Black elderly averaged \$703 and \$596 in monthly benefits, respectively, that same year.<sup>28</sup> Although the Social Security system was intended to eliminate poverty among and provide retirement security for retired persons, it does not fully achieve this result, particularly for Latinos and Blacks. **The Hispanic elderly population is more likely than Whites, but less likely than Blacks, to be poor;** in 1996, almost one-quarter (24.4%) of Hispanic persons 65 years and over were poor, compared to less than one-tenth (9.4%) of Whites and one-quarter (25.3%) of Blacks.<sup>29</sup>

#### A Brief History of Social Security<sup>30</sup>

In 1934, a period in which all Americans, especially elderly Americans, were feeling the effects of the Great Depression, including high unemployment and financial failures, President Franklin D. Roosevelt created the Committee on Economic Security to study the issue of economic insecurity, and to construct a program that would address the problem of poverty among old-aged individuals. On August 14, 1935, the Social Security Act was signed into law, and created a program aimed at providing retired workers age 65 or older with a livable income after retirement. The program was to be financed by a federal payroll tax (2% of wages and salaries) established by the Federal Insurance Contributions Act (FICA), and benefits were to be based on payroll tax contributions made by the worker.

The first FICA taxes were collected in January 1937, immediately after Social Security numbers were assigned. Payments of monthly benefits began in January 1940 (the period from 1937 to 1940 was used to build up funds), and were distributed to retired workers, their widows, or their surviving parents. Until 1950, payment amounts had been fixed, but that year COLAs (Cost of Living Allowances) were introduced, and provided retirees with much-needed benefit increases based on the increased cost of living, e.g., consumer prices. At first, benefits increased only when Congress passed legislation; however, starting in 1975 (after legislation was passed in 1972), automatic and annual COLAs were made to retirees' benefits. No longer did beneficiaries have to wait for the enactment of legislation before receiving necessary benefit increases.

Finally, amendments to the Social Security Act gave birth to a disability insurance program in 1954. At first, the program provided disabled persons with a "freeze" on their Social Security record, which prevented periods of disability from reducing or eliminating retirement benefits, but no cash benefits were offered. Over the next couple of years, Congress expanded the program to allow disabled workers and their dependents to qualify for cash benefits.

<sup>28</sup> NCLR calculated the percent of elderly receiving Social Security benefits by dividing the number with Social Security income by the total population 65 years and over; and determined average monthly benefits by dividing mean annual income by 12.

## IV. Current Reform Proposals

As discussed above, the Social Security system will be strained in less than 15 years, and a number of proposed changes to the system have been offered to help remedy the situation. Over the past few years, the Advisory Council on Social Security appointed by President Bill Clinton has outlined three possible plans, and a number of organizations have weighed in with their proposals on how to reform the system. In addition, this year President Clinton tabbed Social Security reform as the Administration's number one priority by proposing that all future federal budget surpluses be used to shore up the system. Legislatively, there has been only gradual movement on reforming the Social Security system, as there is some considerable debate among those in Congress on how the projected surplus should be distributed. However, Social Security reform will most likely be discussed, and may occur, in the next legislative session, and pieces of the plans/proposals that have been suggested to this point will most likely form the basis for those legislative initiatives. Therefore, NCLR has briefly outlined several of the currently-proposed changes to the Social Security system below and has provided a preliminary assessment of their potential effects on the Latino community.

### A. Proposals Designed To Raise Social Security Tax Revenues:

1. **Increase the payroll tax.** Two of the three plans put forth by the Social Security Advisory Council propose raising the federal payroll tax to increase revenues and help pay benefits to the expanding number of retirees. In addition to "rebating" five percentage points of the current 12.4% Social Security tax to workers for private investment, the plan advanced by Sylvester J. Schieber, Vice President of the benefits consulting firm Watson Wyatt Worldwide, would also levy an additional 1.5% tax on wages and salaries to cover current retirees' Social Security benefits. Likewise, the plan developed by Edward Gramlich, former Congressional Budget Office (CBO) Director, also would adopt an added payroll tax of (1.6%), but in this case, to be used by workers for private investment or saving. In combination with other provisions to reduce benefit levels, both plans claim they will completely eliminate the deficit over the next 75 years.<sup>31</sup>
- **Impact on Hispanics.** As detailed in a 1997 NCLR report, *Burden or Relief? The Impact of Tax Policy on Hispanic Working Families*, while federal payroll taxes are fairly progressive, they extract a large share of income from Latino families. The study revealed that in 1995, a Hispanic family with an income of \$25,000 (Hispanic median family income that year) had its income reduced 11.2% by the payroll tax. While a portion of total income was repaid through the federal Earned Income Tax Credit (EITC), the median Hispanic family still had nearly \$1,700 less in disposable income to spend on important items like its children's education.<sup>32</sup> *NCLR does not support any Social Security reform proposal which contains a payroll tax increase, because it disproportionately diminishes the already low income levels of many hardworking Hispanic Americans.*

**2. Privatize the system through individual accounts.** Some groups believe that privatization, and, more specifically, individual investment accounts, would be the most effective means of reforming the Social Security system. Such a system is advocated by many conservatives and financial institutions because it would shift control over taxable income from the government to the individual; some proposals also maintain a minimum government guarantee of benefits. For example, the Schieber plan would allow workers privately to invest five percentage points of the 12.4% of wages and salaries currently collected for Social Security, and the accompanying returns would help pay for the worker's retirement, along with reduced Social Security benefits. Proponents further claim that the result of such a shift would be increased savings and higher rates of return, which would allow the federal government to reduce payroll taxes.<sup>33</sup>

- **Impact on Hispanics.** *NCLR is currently studying the effects of a number of proposed alternatives, but has five sets of concerns with regard to privatization of the Social Security system, which initially appears most to benefit the wealthy and least low-wage workers:*

- a. High transition costs.** In changing from a pay-as-you-go system to a privatized system, the federal government would still be required to meet its obligations to current retirees, which means additional costs would be incurred during the transition period in which a new system is phased in. Hispanics are projected to comprise a greater proportion of the U.S. workforce in the next 30 years, and will be greater contributors to the Social Security system, as a result. Thus, Hispanic workers will bear a proportionately larger portion of the transition costs that would most likely be placed on current workers if a privatized system were adopted.
- b. Lack of investment experience.** According to the recently released 1998 Employee Benefit Research Institute (EBRI) survey, while Hispanics are confident of their ability to invest for retirement, they are least likely among all racial/ethnic groups to have begun preparing (through saving and/or investing) for retirement due to their concentration in low-wage occupations, and lack of information about, access to, and comfort with, the financial sector.<sup>34</sup> In addition, low-wage workers would most likely be conservative investors, which could diminish their long-run levels of return, and many may also decide to withdraw their funds early, if allowable, in order to meet current and unforeseen obligations, e.g., health crisis or layoff.
- c. Volatile earnings history.** Low-wage workers tend to have more unstable jobs than high-wage workers because they are employed in sectors of the economy which are more susceptible to downturns. As a result, low-wage workers experience higher rates of dislocation, displacement, and unemployment.<sup>35</sup> Further, while workers currently only have to earn 40 credits to qualify for full benefit coverage, under a privatized system, which assumes consistent work at wages that allow for investment, these same workers would be penalized during periods of unemployment because they could not contribute to their private individual accounts.

- d. Higher risk.** There is high risk involved with such a dramatic systemic change. While the country is currently experiencing an economic “boom” and a “bull” market, the economy and market will most likely experience a downturn or “correction” in the future. A recession would affect benefit levels under a privatized system and potentially threaten the financial security of retirees who partially depend on Social Security for survival, many of whom are Hispanic. Furthermore, there is not only the question of whether a minimum level of benefits would be maintained, but, if so, whether they would be sufficient to support Latino retirees and their families, who depend more on Social Security income than other groups.
- e. Transaction fees.** Administrative fees to maintain individual accounts could be charged to workers annually or quarterly, as well as a transfer fee if a worker decided to move her/his account from one certified manager to another. The administrative fee would reduce the amount of contributions workers made to the system, which would subsequently diminish their level of return and overall benefits received from the system. Likewise, a transfer fee would also reduce expected returns and benefits. Both of these fees would have a more adverse effect on low-wage, and Hispanic, workers who earn and contribute much less to the Social Security system, and rely more on the benefits the system provides, than high-wage workers.<sup>36</sup>

*In sum, privatization through individual accounts would not necessarily benefit, and could potentially harm, most Latino workers or retirees, and carries great risk to the safety net currently provided by Social Security. Therefore, while privatization through individual accounts appears fair and efficient at first glance, it could, in fact, make the current Social Security system more inequitable and costly. NCLR believes further research is needed to assess fully the distributive effects of full privatization proposals.<sup>37</sup>*

**A Look at the 1998 Heritage Foundation Report on  
Social Security Privatization and Hispanic Americans<sup>38</sup>**

On March 27, 1998, the Heritage Foundation released a study entitled *Social Security's Rate of Return for Hispanic Americans*. The Heritage Foundation argued that Hispanics would achieve a higher rate of return and a greater level of retirement security if they placed their payroll tax contributions in private investment accounts rather than relying on the current Social Security system. The Heritage Foundation asserted that a higher rate of return from tax contributions is important, not only for a person's own financial well-being, but also for her/his family, the succeeding generation, and the community in which s/he lives.

According to the Heritage Foundation's analysis, a Hispanic male worker, age 22, earning \$17,900 a year, currently has an annual rate of return of 1.44% under Social Security, but would have a much higher return of 2.8% if his payroll taxes were invested in U.S. Treasury Bonds. Similarly, a married-couple Hispanic family, with both parents age 32 and working, and with combined earnings of \$35,822, currently earns 2.17% interest from Social Security, but would earn 3.17% if its payroll taxes were invested in U.S. Treasury bonds (and 4.67% if 50% were invested in bonds and 50% in equities).

Furthermore, the Heritage Foundation suggests that this “gap” in current and possible benefits from the Social Security system has a dual effect on the Latino community and the country. First, the report estimates that a hypothetical community of 200,000 Hispanic residents (50,000 married-couple families of four, both parents age 30, working, and earning \$17,911 a year) would have \$12.8 billion more in disposable income if payroll taxes paid over a lifetime were invested in a “conservative portfolio,” like those above. Second, the report contends that this gap could also have an impact on other retirees in the near future as the “baby boom” generation retires and Hispanics make up an increasing share of workers and contributors to the system.

NCLR agrees with the Heritage Foundation’s basic premise that Social Security is an important source of retirement income for Hispanic Americans, and, in turn, that Hispanic Americans will be a vital factor in the long-term solvency of the Social Security system. In addition, NCLR believes that current payroll taxes are too high and deter, if not prevent, saving, which has a negative effect on the socioeconomic status of Latinos and the overall state of the U.S. economy. Finally, NCLR is also in support of a system which yields a higher rate of return for Hispanic families -- without sacrificing the overall equity of the system.

However, while this report appropriately brings to light the importance of the Latino community in the Social Security reform debate, **NCLR also believes that there are additional issues not covered by the Heritage study, including high transition costs, lack of investment experience, volatile earnings history, higher risk, and transaction costs.** (These are explained in more detail on pp.8-9.)

**3. Privatize the system through government investment.** Other proponents of privatization believe that a portion of the federal payroll tax should be invested in private markets -- by the government -- in “less-risky” stocks and bonds. (The federal government is currently allowed to invest Social Security funds not used to pay benefits only in U.S. government securities.) For example, former Social Security Commissioner Robert M. Ball’s plan, issued by the Social Security Advisory Council, would invest 40% of the Social Security trust fund in an index fund of stocks, but the stock portfolio would be managed by the government, not individuals. As with other forms of privatization (e.g., individual accounts), government investment would be projected to result in greater revenues, which would help secure the solvency of the system and relieve the burden of providing for an increased number of retirees.<sup>39</sup>

- **Impact on Hispanics.** Government investment of a portion of the trust fund appears initially to be extremely beneficial for Hispanics, in potentially reducing burdensome Social Security taxes and ensuring and increasing needed Social Security benefits. However, any investment in private markets involves risk, which at times means higher returns and, at others, diminished returns. The economy will inevitably experience downturns in the future, which would impact Social Security revenue flows and, if serious enough, could force the federal government to turn elsewhere for needed revenue, including to workers by increasing their payroll taxes. Therefore, if a privatized system such as that described above were instituted, it would be vital that the federal government make sound investment decisions and have mechanisms in place to deal with downturns

and maintain benefit levels.<sup>40</sup> *NCLR would consider supporting partial privatization of the Social Security system as one of several provisions designed to maintain the social insurance nature of the program and enhance progressivity.*

## **B. Proposals Designed To Reduce Social Security Benefit Payments:**

**1. Raise the retirement age.** The normal retirement age is slated to be increased from 65 years to 67 years over the next couple of decades, and many reformers are proposing to increase it faster and/or even further, to 70 years, and beyond. Proponents argue that such a change is needed because life expectancy is higher than it was when the Social Security Act was adopted and a larger number of workers are retiring earlier, which has the dual effect of increasing the amount of benefits paid to retirees and decreasing the amount of payroll tax revenue received from workers. Thus, many presume that raising the retirement age would effectively save the Social Security system billions of dollars by reducing the number of eligible recipients. These observers and others also contend that increasing the retirement age would remove the need for more drastic alterations to the system, which could jeopardize the equity currently inherent in the system.<sup>41</sup>

- **Impact on Hispanics.** According to many projections, raising the retirement age to 73 years would come close to eliminating Social Security's long-term deficit. However, as detailed previously, low-wage workers depend on Social Security for a significant share of their retirement income, and delaying the receipt of benefits would force many to work longer (at least part-time). While high-income workers can manage to retire early, and receive reduced benefits until reaching the normal retirement age, large numbers of Latinos currently cannot retire early because they have insufficient savings and/or returns from investment and need the extra income not only to support themselves, but also, in some cases, their families. In addition, due to low high school graduation and college completion rates, many Latino workers enter the workforce earlier and work longer than their White and Black counterparts, who have higher levels of education.<sup>42</sup> Still other low-wage, and Hispanic, workers cannot work, due to poor health and/or job loss, and, consequently, would have to survive longer without full Social Security benefits if the normal retirement age were increased.<sup>43</sup> *NCLR feels that the likely costs of raising the retirement age for many Latino workers in having to work longer far outweigh the projected benefits of reducing the Social Security deficit.*

**2. Means-test Social Security benefits.** Under the current system, while low-wage earners receive a larger proportion of their lifetime earnings in Social Security benefits, high-wage earners still garner a significant amount from the federal government. For example, a worker with average lifetime earnings of \$23,376 gets a monthly Social Security check of \$1,210, no matter what her/his level of wealth.<sup>44</sup> As a result, some proponents believe that Social Security benefits should be means-tested, so that benefits would be reduced at a certain level of income (e.g., \$40,000). The argument is that the government should help support those who depend primarily on Social Security for their retirement income rather than those who already have adequate income due to earnings, savings, and/or investments. It is argued further that the end result would be less pressure on the system to pay for more

higher-income retirees and more revenue to help pay the benefits for a growing number of retirees, many of whom will have low incomes and will especially need the added income Social Security provides.<sup>45</sup>

- **Impact on Hispanics.** The universal nature and fairness of the Social Security system enjoys widespread support, and it would be extremely hard, if not impossible, to sustain popular support for a system that reduces Social Security benefits for wealthier retirees, but still requires them to make the same contribution to the system as workers. Such a policy would be viewed as redistributive (taxing the wealthy to provide benefits for the poor), and essentially a “welfare” program for low-income retirees, which could threaten overall public support for Social Security. Furthermore, higher-income persons might seek ways to reduce their taxable income, by “transferring” a portion into assets, for example, which could have the effect of “netting out” or off-setting the projected revenue-gain from means-testing.<sup>46</sup> *NCLR is disinclined to support a strict means-testing provision as part of Social Security reform because the system currently helps alleviate poverty for many Hispanic retirees, and this could change if the program were believed to be unfair and targeted to the poor.*

While the above proposals have garnered the most attention, there are some more modest provisions, many supported by the Advisory Council on Social Security, which have also been mentioned that could reduce a significant amount of the Social Security deficit. These include: means-testing of Cost of Living Allowances (COLAs), expanding Social Security coverage to state and local government employees, and changes in the tax system to make a greater share of high-income retirees’ benefits liable to income taxes. Each of these provisions deserve further scrutiny and will be considered by NCLR in future Social Security reform discussions.<sup>47</sup>

## V. NCLR Recommendations

While reform of the Social Security system is needed, it would have significant implications for Hispanic Americans, who make up an increasing share of the U.S. workforce, as well as a growing segment of the U.S. elderly population. Therefore, there be a need to enhance the education and employment prospects of future Latino workers, and financial status of a growing Latino elderly population. Specifically:

- **Given that the Social Security system will become more dependent on Latino workers for revenue, it is imperative that their educational and employment outcomes be improved.** Hispanics comprise an increasing share of the U.S. population and labor force. Currently, the majority of Latinos only have a high school education and are concentrated in low-wage occupations. However, if Hispanic educational attainment were increased, employment prospects would be enhanced, and earnings levels would rise. This “chain reaction” would result in greater payroll tax revenue, less pressure to provide for retirees, and, consequently, fewer incentives to change the current Social Security system drastically, as changes could very likely be inequitable and have an adverse effect on Hispanics.<sup>48</sup>

- **Since the Social Security system will begin paying benefits to more Latino retirees, it makes sense to reform the system adequately and progressively, and help insure a decent retirement.** The growth of the Hispanic population over the next few decades will be concentrated, in part, among those 65 years and over. Given that the current Hispanic elderly population relies heavily on the Social Security system for income, it is likely that a significant share of tomorrow's retired Latino workers will do the same. Therefore, any reform of the system must factor in the growing Hispanic elderly population, and its, at least partial, reliance on Social Security for retirement security.
- **In addition to Social Security, personal saving and investing and private pension plans are two other ways to help Latinos build a financially secure retirement, and both should be studied further and advanced.** Latino households held under one-third (30.2%) the assets (including home equity; financial assets, such as stocks or bonds; and real assets, such as cars) of White households in 1995.<sup>49</sup> Latinos have limited assets because many Hispanics simply do not have the means to purchase a home, invest in stocks, or buy a car. In 1995, the average Hispanic household had \$3,784 in disposable income (after paying for such necessities as food, housing, and clothing), compared to \$9,976 for non-Hispanic households.<sup>50</sup> It is also suggested that Latinos do not save and invest due to their overall low level of "financial literacy." According to the 1998 EBRI Survey, a large segment of Latino respondents did not have access to and/or use financial planning information. Furthermore, Latinos have extremely low pension plan coverage because they are concentrated in low-wage jobs that do not offer retirement savings plans. Of the 12.3 million Hispanics in the U.S. labor force in 1995, one-third (32%) had employee pension plans, compared to one-half (51%) of Whites and two-fifths (44%) of other minorities.<sup>51</sup> Therefore, increasing Latino access to positions which pay better and provide pension plan coverage, as well as to financial planning information could simultaneously diminish the strain on the Social Security system and enhance Latino retirement security.
- **Further research is needed to assess fully and accurately the effects of various Social Security reform options on the Hispanic community.** Various features of the Social Security system interact in complex ways; as a result, sophisticated economic models generally are required to produce precise projections of the impact of alternative proposals on specific income groups. For Latinos, even these analyses are inadequate, because they do not fully account for the community's demographic and employment characteristics. Furthermore, any final legislative reform is likely to be in the form of a "package" that includes elements of various reform proposals. A review of the literature does not reveal any existing research or analysis that fully encompasses all of these considerations. However, as a technical matter, it should not be difficult to adapt existing Social Security models to account for Hispanic demographic and employment characteristics. Given the scope and magnitude of the potential impacts on Latinos as a result of changes in the Social Security system, any major reform debate should be informed by the most complete and accurate data available.

Latino workers and retirees will respectively be greater contributors to, and beneficiaries of, the Social Security system when financial constraints are projected to befall the system in the next 15 to 30 years. Accordingly, a joint federal and community-based effort must seek to develop this critical population base financially, by helping to move more Latinos into higher-paying occupations with retirement savings plans, and to heighten their "financial literacy," both of which begin by improving Latino educational outcomes. The resulting effect would be less pressure on the Social Security system, as more revenue would be available to provide benefits to future retirees, and more retirement income would be accumulated via savings, investments, and pensions. As a result, any consideration of reform of the Social Security system must take into account the impact of the current Social Security structure, in addition to proposed reforms, on the Latino community, not only for the benefit of Latino retirees, in the elimination of poverty and enhanced retirement security, but also for the nation, in helping to avert a potential crisis.

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**FOREIGN PROJECT POLICY BRIEF:  
THE TRADE DEBATE AND  
THE NORTH AMERICAN DEVELOPMENT BANK (NADBank)**

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October 1998

**Introduction**

This brief is the first in a series of documents the National Council of La Raza (NCLR) is producing to help inform policy makers and constituents on the issues associated with trade and the upcoming debate over "Fast Track" trade negotiating authority in the 106<sup>th</sup> Congress.<sup>1</sup> During the discussions leading up to the final passage of the North American Free Trade Agreement (NAFTA) in 1993, President Clinton worked with Hispanic leaders, labor organizations, and others to outline a vision that was both pro-trade and pro-worker. The promises made during that time included a commitment to provide adequate assistance through a variety of government programs and institutions for workers and communities negatively affected by changing trade policies. The debate in the fall of 1997 over President Clinton's request for renewed "Fast-Track" trade negotiating authority brought to light the inadequacy of implementation efforts with respect to trade dislocated worker programs and institutions to date.<sup>2</sup>

This policy brief outlines the implementation issues with respect to the North American Development Bank (NADBank). The NADBank is one of the institutions created in coordination with the signing of NAFTA to assist trade-affected workers and communities adjust to changes in the economy and to provide for clean U.S.-Mexico border environment. NADBank funds are divided between two separate institutions in order to meet these two goals.

<sup>1</sup> "Fast-Track" authority would allow the President to bring completed trade treaties to Congress for a straight up-or-down vote without amendments. Otherwise, the President would have to negotiate a trade agreement, which the Congress would, undoubtedly, amend. The President would then have to renegotiate with the trading partner, and if any changes were made would have to repeat the entire process.

<sup>2</sup> Latino and labor groups have cited the inadequacy of both the NAFTA Transitional Adjustment Assistance Program (NAFTA-TAA) and the Community Adjustment and Investment Program (CAIP) of the North American Development Bank (NADBank) in trying to tackle the substantial number of job losses experienced in many communities. For further information see: Maggs, John. "Before and NAFTA" *The New Republic*. September 1, 1997. Pp.11-12; and Hendricks, David. "NAFTA hurt by broken promises" *San Antonio Express-News*. July 17, 1997; and *A Latino Review of President Clinton's NAFTA Package. Part 1: NAFTA's Labor Market Impacts and the Side Agreements on Labor and Environmental Standards*. Los Angeles, CA: William C. Velasquez Institute, Inter-Mestic Initiatives Paper 1, July.

## **Background**

Over the last decade, U.S. policy of pursuing increased trade with the developing world has had both economic costs and benefits. Lower trade tariffs have opened foreign markets to U.S. goods, allowing U.S. companies to increase exports, thereby creating jobs at home. On the import side, lower tariffs have allowed Americans to buy a basket of goods that other countries produce more cheaply. Thus, the nation is now able to afford more goods for less money while promoting for export the domestic production of higher-end goods and services, the industry areas where the U.S. has a comparative advantage.

For Hispanic Americans, in particular, there are also intangible benefits to a stronger trade partnership between the U.S. and Latin America. Increased economic interaction with Latin America requires that companies hire individuals, many of whom are likely to be Hispanic, with knowledge of the language, culture, and norms of Latin America. Further, the growth in financial relationships between the U.S. and Latin America should greatly benefit Hispanic-owned businesses. According to the Census Bureau, as of 1992, 8% of the nation's 17 million small businesses could conduct transactions in Spanish; however, among Hispanic-owned businesses, the proportion was 60%. That difference should translate into a competitive advantage for Latino small businesses wishing to export their goods and services to Latin America.

An added benefit for Latinos is that a stronger relationship between the U.S. and Latin America could potentially result in greater knowledge of the countries from which Hispanics originate, as well as increased respect for the Latino community in the U.S. Further, more Hispanic Americans could serve as a "bridge community" between the two cultures, and the value of bilingualism should grow. Finally, increased interaction with Latin America should encourage Hispanic Americans to take a greater interest and play a larger role in U.S. foreign policy.

The problem with pursuing increased trade with developing nations lies in the effects of that policy on U.S. domestic economic inequality. Those domestic workers employed in industries where the U.S. is at a comparative disadvantage have experienced dramatic and painful job losses over the last decade as a result of trade. Low-skilled workers tend to make up a majority of the workforce in industries where the U.S. is not globally competitive. Thus, low-skilled workers are disproportionately bearing the losses, while workers with higher levels of job skills are disproportionately reaping the benefits, of increased trade. More specifically, trade keeps inflation low, thereby benefiting all Americans, but it puts downward pressure on the wages of low-skilled workers and raises the wage premium for high-skilled workers. The result is increased domestic economic inequality.

Further, the problem becomes exacerbated by the concentration of negative trade effects in specific communities. El Paso is the common example used to highlight the negative effects of trade. A number of garment manufacturers have relocated their operations from El Paso to Mexico since NAFTA continuing a long-term trend of the “downsizing” of the U.S. garment industry. As a result, El Paso has lost over 8,000 jobs in the garment sector. The majority of those now-unemployed laborers are Hispanic women with low educational levels and few job opportunities. It is not hard to imagine the broad effects such a concentration of job loss can have on a community.

The challenge for public policy makers is to provide for an equitable domestic distribution of the gains made from international trade. Those on opposite ends in the political debate over trade make two different and distant propositions. One extreme, “protectionism,” argues for the continued protection of low-skilled work by maintaining the barriers to trade that remain. At the other extreme, “laissez-faire” free traders promote the pursuit of unfettered trade and the lowering of trade barriers everywhere, with a highly restricted and limited role for government. Neither extreme enhances the long-term economic well-being of low-wage workers, however. Protectionism perhaps unintentionally ensures that workers not pursue the skill enhancement necessary to make them competitive in changing markets, while free-trade does nothing to assist low-skill trade-dislocated workers or communities adversely affected by trade.

There does, however, exist a “vital center” in this debate that argues in favor of increased trade, but only if accompanied by strong transition adjustment assistance programs and institutions for those communities and individuals negatively affected by changing trade patterns. For Hispanic Americans, the successful implementation of trade adjustment programs and institutions is of extreme importance for three reasons. First, Hispanics are disproportionately highly represented in the manufacturing industry and other low-skilled labor industries, the sectors of the economy most vulnerable to trade-related dislocation. Second, trade adjustment programs are concentrating for the first time on the predominantly Hispanic communities in the U.S. located along the border with Mexico, a region that U.S. government programs have traditionally ignored. Third, Hispanics would like to support increased economic interaction with Latin America due to remaining ties to countries of origin, but cannot do so if transitional programs do not address Hispanic domestic needs.

The primary domestic concern related to trade for Hispanics is job loss.<sup>3</sup> The jobs lost as a result of NAFTA over the last four years in the manufacturing industry and in Latino communities do not come as a surprise to NCLR. The “Latino Consensus on NAFTA,” with the leadership of Congressman Esteban Torres and other members of the Congressional

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<sup>3</sup> Hinojosa-Ojeda, Raul. 1997. *A Latino Review of President Clinton's NAFTA Package. Part 1: NAFTA's Labor Market Impacts and the Side Agreements on Labor and Environmental Standards*. Los Angeles, CA: William C. Velasquez Institute, Inter-Mestic Initiatives Paper 1, July.

Hispanic Caucus, joined in an effort to address these expected job losses. They advocated for the creation of the North American Development Bank (NADBank) and sought to expand the eligibility of the NAFTA Transitional Adjustment and Assistance (NAFTA-TAA) program to include seasonal and secondary workers.<sup>4</sup> This expanded eligibility would significantly increase the number of Hispanics who could participate in the program.

By arguing for the development of institutions and programs intended, in effect, to provide transition assistance to trade-affected workers and communities, NADBank supporters were saying "yes" to increased trade and integration with Latin America, but "no" to a widening of the income gap in the United States. Convinced of the need for these institutions, these legislators and advocates designed and established mechanisms to provide the capital and job training that trade-affected communities and workers need in order to be full participants in the new economy. They were also intended to provide for a healthy and prosperous U.S.-Mexico border region.

Acceptance by the Clinton Administration of labor and environmental issues as central to NAFTA was the key to passing the agreement in the U.S. House of Representatives. NAFTA prevailed in the House by a slim 34 vote margin: more than a dozen members publicly attributed inclusion of the NADBank or NAFTA-TAA program as principal reasons for their support. This victory represented a historic shift in U.S. trade policy, ensuring that labor and environmental concerns would be central to the successful ratification of any future trade agreement.

According to some observers, the Clinton Administration's failure to fulfill adequately the promises it made on the NADBank and the NAFTA-TAA programs in the three years after NAFTA was largely responsible for the Administration's failure to receive Fast-Track negotiating authority in 1997. Independent surveys conducted prior to the scheduled vote revealed that 15 members of the Congressional Hispanic Caucus were prepared to vote against the Fast-Track bill.

Fortunately, notwithstanding initial implementation problems, both the NADBank and the NAFTA-TAA programs appear currently to be moving in the right direction. The following discussion describes the NADBank, outlines how its supporters and sponsors envisioned its

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<sup>4</sup> In 1993, during the NAFTA debate, NCLR worked with other national Latino organizations, including the William C. Velazquez Institute (WCVI), the Mexican American Legal Defense and Education Fund (MALDEF), and others, as well as with some members of the Congressional Hispanic Caucus, to represent Hispanic concerns by arguing in favor of the labor and environmental side agreements as a condition of support for NAFTA. This alliance of organizations came to be known as the "Latino Consensus on NAFTA." For an analysis of the Latino Consensus and its effectiveness see Ham, Patricia, "International Interests and Foreign Policy Priorities of Mexican Americans," paper prepared for: Workshop on Advancing the International Interest of African-Americans, Asian-Americans, and Latinos March 20-21, 1998 at the Pacific Council on International Policy.

dual mission as an environmental and community development bank, and identifies the challenges and issues that remain five years after the passage of NAFTA. The brief concludes with policy recommendations for improvements in the NADBank that will help it fulfill its mission of assisting communities and individuals succeed in the new economy.

## **The NADBank**

The NADBank is a \$3 billion binational development bank.<sup>5</sup> It was established to do two things: provide for a healthy environment along the border between Mexico and the U.S. and assist communities negatively affected by trade. The larger share of NADBank funds, 90% of the capital base, is dedicated to the "Environmental Window" of the NADBank to help finance environmental development projects along the border.<sup>6</sup> The remaining 10% of the capital base funds is divided between the U.S. Community Adjustment and Investment Program (CAIP) of the NADBank, also known as the "Domestic Window," and its Mexican CAIP counterpart program.

### ***"Environmental Window"***

The mission of the environmental division, also known as the "Environmental Window" of the NADBank (based in San Antonio, TX) is to promote the health and welfare of border residents and their environment. It was primarily designed to address problems related to water supply, wastewater treatment, and municipal solid waste management in the border region. Also, the NADBank has focused on these issues because of a general agreement among experts that those are the most pressing environmental problems on the border. Finally, the NADBank focuses on environmental infrastructure because an underlying assumption in its creation is that the border region can only benefit from increased trade, without damaging the environment, by substantially improving the environmental infrastructure in the area.

To date the NADBank has not funded projects outside of the three areas listed above. The NADBank Environmental Window was, however, designed with enough flexibility to allow it

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<sup>5</sup> The NADBank is funded at \$3 billion, \$1.5 billion for the U.S. side and \$1.5 billion for the Mexican side of the Bank. Of that \$3 billion, \$2.55 billion is "callable" capital and \$450 million is "paid-in" capital. As of 1998, both the U.S. Congress and the Mexican government have fully appropriated their share of the paid-in capital, the actual cash funds contributed to the NADBank by the two governments. Callable capital is not a cash contribution, but rather an amount of funds the governments must provide to the NADBank in the future, if required, to meet outstanding debt obligations or guaranties issued by the NADBank. Thus far, callable capital has been effectively "off limits" for programmatic use by the CAIP of the NADBank as a result of decisions made by the U.S. Treasury Department. The Environmental Window has the capital and authority to go to market, but will not until it needs the capital for operational purposes.

<sup>6</sup> The border region is defined within the NADBank charter as the area within 100 kilometers (62 miles) north and south of the international boundary between the two countries.

to fund projects that address “related matters.”<sup>7</sup> The NADBank has not yet provided examples of what those related matters might include.

Further, the Environmental Window was created as an institution intentionally interdependent with a second and separate institution, the Border Environmental Cooperation Commission (BECC). BECC headquarters are in Ciudad Juarez (across the border from El Paso, TX). The BECC is charged with overseeing initial NADBank project development and ensuring community participation in determining environmental priorities and solutions in open and public forums. The BECC is also responsible for certifying projects under the heading of “related matters” but has not yet done so. It will take the leadership from the U.S. Treasury Department and its counterpart in Mexico to provide guidance for a definition of what types of projects may fall under the heading of “related matters.” In the long run, many community groups hope that a successful NADBank will have the operational capacity to use the flexibility provided by the “related matters” clause to promote holistic economic development.

The Environmental Window of the NADBank provides three services to communities. First, it assists and advises communities in ensuring that preliminary proposals are complete. Second, in its capacity as an investment banker, it provides its clients with assistance in structuring the most affordable financial package possible by helping them seek ways to reduce project costs. They help reduce costs by bringing capital to a project through funding from both private and public sources, the most important of which are funds drawn from the Border Environmental Infrastructure Fund (BEIF). Third, it provides “gap” financing for project costs not covered by other funding sources.

The NADBank-Environmental Protection Agency (EPA) “linked funds” program known as the Border Environmental Infrastructure Fund (BEIF) was created with an initial contribution from the EPA of \$170 million. These grant funds are combined with the U.S. contribution to the NADBank’s loan and guaranty programs to increase the scope of NADBank lending by reducing the cost of environmental projects for the largely low-income communities along the U.S.-Mexico border.

Lastly, the Environmental Window created the Institutional Development Cooperation Program (IDP) to provide technical assistance to communities. The program uses grant funds to conduct system evaluations, purchase information processing equipment, and provide training in its use. The management at the Environmental Window is calling the IDP “environmental transition assistance.” The program is intended to provide communities with the skills to move from smaller and fewer projects that were fully grant-funded to more and larger projects that the communities will share responsibility in paying for.

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<sup>7</sup> The NADBank charter states that the Border Environmental Cooperation Commission (BECC) shall “give preference to environmental infrastructure projects relating to water pollution, wastewater treatment, municipal solid waste and related matters.” Charter, Ch. I, Art. II.

### *The Community Adjustment and Investment Program (CAIP) or "Domestic Window"*

The CAIP was created to provide adjustment assistance to communities throughout the country that have experienced significant job losses due to changes in trade patterns with Canada and Mexico. Its headquarters are located in Los Angeles, California and it receives 10% of the NADBank's capital base (\$22.5 million in paid-in capital and \$127.5 million in callable capital).

To become eligible for CAIP loans and loan guaranties, a community must first undergo a certification process. CAIP certification requires evidence of significant job losses associated with the passage of NAFTA (since January 1994) and evidence that the area has not adjusted to the job losses through the existence of other employment opportunities. This evidence is more difficult to produce for small, poor communities, such as those located along the U.S.-Mexico border, because while they are and have been historically trade-impacted, it is difficult to calculate the exact specific effects of NAFTA on these communities.

CAIP certification for communities or cities translates into loans in only two ways at the present time. First, the CAIP has a small direct lending capacity. Of the \$22.5 million in paid-in capital available to the U.S. contribution to the CAIP, \$7 million is dedicated for the direct lending program. Second, the CAIP uses the rest of its funds to leverage Small Business Administration (SBA) loans in cities and U.S. Department of Agriculture Business and Industrial Program (B&I) loans in rural communities by paying the loan guaranty fees associated with these programs.<sup>8</sup> Mexico has established a separate domestic window with funds it has contributed to the NADBank.

The CAIP is currently limited in the use of its capital base to the paid-in portion for loan purposes. Further, the CAIP is not fully utilizing the capital it has available to it because it has not forged the necessary relationships with all the federal agencies involved in community development, as discussed below.

### **Outstanding Issues**

As outlined in the description above, the NADBank is a binational environmental and domestic community development bank. It is making loans and having a positive effect on the lives of trade-dislocated workers and communities. Nonetheless, five issues remain unresolved:

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<sup>8</sup> The SBA loan program that applies in urban settings is the 7(A) Program. The 7(A) program is a loan guaranty provided by the SBA for loans ranging from \$55,000 to \$655,000. The loan guaranty fee associated with this program may range from 3% to 3 7/8% and the CAIP may fund up to the full amount of the loan guaranty fee traditionally borne by the lending institution or borrower.

- The CAIP is not leveraging all the federal programs it should.
- The CAIP is underfunded due to the U.S. Treasury Department's decision not to use callable capital for lending purposes.
- The CAIP and the Environmental Window are underutilizing the funds they currently have available to them.
- The CAIP and the Environmental Window are pursuing an extremely narrow vision of community and environmental development. That narrow vision makes the Environmental Window ineffective as a tool for community development. It also makes the CAIP incapable of making loans more affordable to poor communities through partial grant subsidies or of providing trade-affected communities with needed technical assistance.
- Lastly, the need for NADBank improvements has implications for Fast Track and other future trade legislation.

Each of these issues is explained in greater detail below.

1. **The CAIP is not leveraging all the federal programs it should.** Currently the CAIP has memoranda of understanding (MOUs) with the Small Business Administration (SBA) and the U.S. Department of Agriculture. As a result, it is limited in its leveraging capabilities to programs administered by those two agencies, and does not take advantage of the full spectrum of federal programs related to community development. Further, the CAIP does not have the access to the grant funds of a federal agency that the Environmental Window has through the BEIF.
2. **The CAIP is underfunded due to the U.S. Treasury Department's decision not to use callable capital for lending purposes.** Congressman Esteban Torres, the primary sponsor of the NADBank, envisioned during the NAFTA debate in the House of Representatives that through its leveraging capacity, the NADBank would eventually provide more than \$20 billion to clean up and prevent environmental pollution along the United States-Mexico border. Further, Congressman Torres envisioned that the NADBank, through its leveraging capacity and direct lending program, would ensure that communities negatively affected by NAFTA have the financial capacity to create new and better jobs. He predicted that workers from Peoria to Los Angeles would receive more than \$1 billion for economic development and job creation.<sup>9</sup>

The NADBank is currently far from reaching this goal. Congressman Torres and other supporters assumed and intended that both the callable and paid-in capital would be

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<sup>9</sup> *Congressional Record*, House of Representatives, November 3, 1993, p. H8768.

available to the CAIP for lending purposes.<sup>10</sup> Despite authority provided by NAFTA and written assurances by former U.S. Secretary of the Treasury Lloyd Bentsen that the CAIP would utilize callable capital, the U.S. Department of the Treasury has refused to fulfill its commitment.

Originally, the CAIP was to have a capital base of \$150 million with 25% (\$37.5 million) going toward direct lending. Subsequently, the U.S. Treasury Department has decided not to allow the CAIP access to its callable capital shares for lending purposes, effectively turning the CAIP from a \$150 million program into a \$22.5 million program. It is fully within the capacity of the NADBank to float bonds in the market on a one-to-one ratio against its callable capital and use those funds for lending purposes.<sup>11</sup>

- 3. The CAIP and the Environmental Window are underutilizing their current funds.** By 1997, three years after NAFTA implementation began, the CAIP had approved no loans. The CAIP did not begin issuing loans until the debate on Fast Track was initiated in 1997. Since that time, the CAIP has made only one loan out of its direct lending program. It has also leveraged 120 other loans through the SBA and Department of Agriculture loan programs, but should be leveraging many more. The CAIP loans leveraged thus far total \$71 million, far short of the \$1 billion goal. Further, the CAIP has actually handed out through direct lending only a little more than one million dollars of its \$22.5 million paid-in capital base.<sup>12</sup> This recent lending has translated into 2,600 jobs, but these numbers pale in comparison to the number of jobs lost due to NAFTA.<sup>13</sup>

The Environmental Window has done better but could also be doing more. Thus far, the Environmental Window has approved \$56 million in loans, guaranties, or grants to help finance 10 environmental projects, representing a total investment of \$156 million. The Environmental Window also has to be credited for the nine projects to be completed in the next 18 months in which they will have invested \$110 million. Currently, the Environmental Window's capital base is \$450 million in paid-in capital and \$2.55 billion in callable capital. By expanding the areas of operation, the Environmental Window could turn out more loans and have a broader effect on the lives of citizens along the border. To

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<sup>10</sup> In his November 17, 1993, letter to Congressman Torres, then-Treasury Secretary Bentsen stated that both the paid-in and callable capital would be used for loans, guarantees, and grants by the CAIP.

<sup>11</sup> Research by the Washington D.C. law firm of Hogan and Hartson for NCLR indicates that the NADBank Charter clearly contemplates the use of callable capital for loan purposes and merely limits grants to paid-in capital. See memorandum of June 24, 1998 memo from Hogan and Hartson to NCLR regarding the NADBank.

<sup>12</sup> Murray, Mark. "The Unfulfilled Promises of NAFTA," *National Journal*. July 18, 1998, pp. 1685-1686.

<sup>13</sup> El Paso, for example, has lost over 8,000 jobs since NAFTA implementation. Further, as of August 28, 1998 the Department of Labor has certified that 194,627 workers have experienced job loss as a direct result of changing trade patterns with Mexico and Canada brought about by NAFTA.

do this the NADBank would need the approval and leadership of the federal agencies responsible for the implementation of the program.

- 4. The CAIP and the Environmental Window are pursuing an extremely narrow vision of community and environmental development. That narrow vision makes the Environmental Window ineffective as a tool for community and economic development. It also makes the CAIP incapable of making loans more affordable to poor communities through partial grant subsidies, or of providing trade-affected communities with needed technical assistance.**

The Environmental Window has adhered to the pursuit of water supply, wastewater treatment, and municipal solid waste management in the border region. It has not defined what in its charter includes "related matters" and has not funded projects outside of these three areas. While the environmental issues around water are clearly the matters of highest priority on the border, economic development efforts in the same area are needed in order to provide for the sustainability of any achievements made on the environmental side. As one NADBank official agreed with NCLR in informal discussions, "Unemployment is the biggest threat to the border." This is because border communities, in order to finance the long-term capital intensive projects the NADBank was designed to fund, need the catalysts for income generation and wealth creation that community and economic development projects can provide.

The CAIP is also hindered by a narrow vision of economic development limited to lending for the purposes of small business development. A more holistic vision of community development would require funding for market studies in the areas affected by trade and technical assistance to provide displaced workers with the skills and opportunities necessary to succeed in the marketplace. It would further require the participation of all the agencies of government involved in community development, rather than just the ability to leverage loans from the SBA and U.S. Department of Agriculture. With a relationship similar to that which the Environmental Window has with the EPA, the CAIP could establish a grant program to increase access to loans for poor communities by making those loans more affordable through partial subsidies.

- 5. The need for the NADBank improvements has implications for Fast-Track and other future trade legislation. As a public policy priority, both the environmental and community development aspects of the NADBank are of particular interest to Hispanics because of the concentration of Hispanic communities along the border, adverse environmental conditions in those communities, and the effects NAFTA has had on Hispanic employment throughout the country. Further, the worsening of employment opportunities for low-skilled Hispanic workers and the negative attention drawn to the**

Hispanic community by the conditions under which many are forced to live on the border has significant repercussions for the entire Latino community.

The NADBank is a response to these problems. Specifically, the CAIP is intended to provide capital for job creation in communities that lost jobs as a result of changing trade patterns with Mexico and Canada. Thus far, however, CAIP implementation problems have undermined support for expanded trade in general or Fast-Track in particular. For example, in 105<sup>th</sup> Congress several pro-NAFTA Hispanic Caucus members and national Latino organizations decided to oppose or declined to support Fast-Track in part because of the implementation problems with the CAIP.

## **Recommendations for Improvements in the NADBank**

In order to resolve the outstanding issues listed above, NCLR makes the following programmatic, structural, and legislative recommendations for improvements in the NADBank.

### ***Programmatic and Procedural***

**In order to provide the NADBank with the ability to leverage all applicable federal community development programs, NCLR recommends that:**

- The NADBank establish memoranda of understanding with the following agencies: the Economic Development Administration (EDA), Environmental Protection Agency (EPA), U.S. Department of Labor (DOL), and the U.S. Department of Housing and Urban Development (HUD).
- The Treasury Department hire a senior level official to oversee interagency coordination on the NADBank.
- If the Treasury Department continues to show a lack of commitment to the NADBank, then CAIP administration should be transferred from the U.S. Department of the Treasury to the U.S. Department of Housing and Urban Development (HUD).

**In order to increase the funds available to the CAIP, NCLR recommends that:**

- The Congress and the Administration honor the original commitment of \$150 million for the capital base of the CAIP and the \$37.5 million commitment to the direct lending program.
- The Treasury Department reverse its decision to limit CAIP lending capacity to that of its share of the paid-in capital and allow the use of callable capital. Limiting the CAIP to its paid-in capital runs contrary to legislative intent and the express commitments made by former Secretary of the Treasury Lloyd Bentsen.
- The Administration continue to seek increases in funding for the NADBank through the appropriations process.

**In order to make better use of the CAIP's and the Environmental Window's available capital, NCLR recommends that:**

- The NADBank expand the definition of what projects are eligible for NADBank Environmental Window support under "related matters." This is essential to the successful economic development of the border region.
- Any aspect of an economic or community development project that has environmental implications should be considered eligible for NADBank funding. This would allow border communities otherwise ineligible for funding to participate in NADBank programs, and it would allow the NADBank to expand the number of loans it processes.
- The CAIP improve the performance of the direct lending program and set goals for loan distribution and dates when those goals will be met.
- The CAIP and the Environmental Window continue to enhance their direct outreach efforts to Hispanic communities and community-based organizations.

**In order to expand the capacity of the CAIP and the Environmental Window to provide for true community and economic development, NCLR recommends that:**

- The NADBank reassess its methods for identifying CAIP-eligible communities and include the use of research and databases that better identify all trade-affected workers and communities, rather than just data from NAFTA-TAA certifications.
- The Environmental Window expand the focus of environmental projects beyond water and solid waste projects to include air pollution, industrial waste, transportation, and community development projects. This will increase the region's financial capacity to support sustainable development and finance environmental improvements.
- The Administration commit \$8 million over four years for the CAIP, working closely with HUD, to provide communities with technical assistance in developing strategic plans for identifying growth opportunities and attracting investment.
- HUD administer any funds earmarked for technical assistance purposes.

### *Legislative*

**In order to insure that the NADBank receive the funding necessary to meet its mission, NCLR recommends that:**

- Language be included in any Fast-Track bill adopted by Congress providing for automatic increases in funding for the NADBank proportional to the anticipated job displacement effects associated with any new trade agreement.

**In order to provide the CAIP of the NADBank with grantmaking and technical assistance capacity, NCLR recommends:**

- Full funding of the Administration's request for \$37 million for the NADBank in FY99. The funding would provide the CAIP with a grantmaking capacity and funds with which to

provide technical assistance. If this funding is not achieved this year, NCLR recommends the Administration pursue the funding goals through other mechanisms.

- That based on the NADBank-EPA "linked funds" model, a parallel program be set up for the CAIP allowing it to access a different agencies' grant funds.
- That like the Institutional Development Cooperation Program of the Environmental Window, the CAIP recognize and implement technical assistance to provide for skill enhancement in the communities where they intend to provide lending.

## **Conclusion**

This brief is intended to provide support to the NADBank in its endeavor to assist trade-affected communities. NCLR and other groups that supported its creation are working as advocates to see that those public servants already working at the NADBank are better supported and to ensure that the NADBank is better managed and better funded. It is imperative that the NADBank succeed for the well being of trade-affected communities and to the continued effort to strengthen partnerships in the hemisphere.

For more information on this brief or NCLR's work on trade, please contact Policy Analyst Daniel A. Sepulveda at (202) 785-1670. You may also contact NCLR through the internet at [www.nclr.org](http://www.nclr.org)

For more information on the Environmental Window, please contact the NADBank at: 203 South Saint Mary's, Suite 400, San Antonio, Texas 78205. Phone: (210) 231-8000.

For more information on the CAIP, please contact the NADBank Los Angeles Office, Tel: (562) 908-2100, Fax: (562) 908-2110 or write to the NADBank, 13191 Crossroads Parkway North, Suite 275, City of Industry, CA 91746.

For more information on the BECC, contact: Border Environment Cooperation Commission, P.O. Box 221648, El Paso, TX 79913, Tel. (011-52-160) 29-23-95.

## **Toward Full Partnership For American Latinos**

The next census will define Latinos as America's largest ethnic minority. Despite their long history here, and their presence as soldiers, teachers, doctors, executives, and laborers, to this day this community is little understood and its history in this land is not well known. As a result, addressing the economic condition of Hispanic Americans is not yet truly part of the American agenda.

The coming of the next century is a critical time to begin to construct an agenda which aims to embrace Hispanic Americans as full partners in American society. Indeed, the future of this community and the future of the larger society are inextricably linked. Issues which are already at the top of the Hispanic agenda, like eliminating the 30% dropout rate, and improving economic opportunity among Latinos, must be at the top of America's agenda. America cannot afford to leave today's Latino students – the fastest growing part of the U.S. workforce – behind; tomorrow's economic prosperity depends on them.

There are three principal components to strategy which deliberately invests in America's Latinos: education, economic mobility, and Americanization. They are outlined in further detail below:

### **EDUCATION**

In 1998 the Clinton administration took its first step toward establishing a specific strategy aimed at improving educational outcomes for Latino students. This strategy, the Hispanic Education Action Plan, increased federal funding for several key education programs. By introducing and enacting this important initiative, the administration broke critical ground toward establishing the principle that, as the nation focuses on education policy, policy makers must develop a specific, strategic approach toward ensuring that the educational system properly serves Latino students. Currently, 30% of Latinos drop out before they finish high school, a rate at least twice as high as that of any other group. Latinos are at least 30% of the population eligible for key educational intervention programs, such as Head Start or Upward Bound, yet they represent only 15% of participation in these programs. And Latino students are chronically ill-served by poorly-trained teachers, school systems which believe that they cannot achieve, and school facilities which are well below standard.

Latino workers are among the fastest-growing segments of the U.S. labor force. By 2010, 2020, and 2030, Latinos are projected to account for 13.2%, 15.2%, and 17.2%, respectively, of all U.S. workers. It should be clear that a strategy to prepare young Latinos properly for full participation in the work force is in the American interest.

A bold, specific education policy proposal which is aimed at addressing the particular needs of Latino students must contain several key elements. First, it must ensure that Latinos be equitably served by the education intervention programs which make a difference, such as Head Start, TRIO, Upward Bound, and others. In addition, it must support community-based efforts to challenge the points in the educational pipeline which are failing Hispanic students. These efforts, like academically-focused after-school programs, innovative charter schools, parent training and involvement programs, and other community-based efforts, should be provided with significant opportunities to become formal partners with school districts in an all-out campaign to improve educational outcomes for Latinos. In addition, local school districts and states should be held firmly accountable for the standards which they apply to the students in their care, and specifically for ensuring that Latino students be adequately prepared to meet these standards. States must be required to submit formally detailed plans indicating how they intend to meet the challenge of adequately educating their Latino students, particularly those who are still learning English.

### **PROMOTING ECONOMIC OPPORTUNITY**

There is a well-documented and substantial gap between Latinos and other groups, particularly non-Hispanic Whites, in terms of wages and earnings, educational status, employment, and overall economic mobility. Despite the fact that Latino males have the highest labor force participation in the country, and the high likelihood of living in stable, married-couple or family households, Hispanics have not benefited from the country's growing economy to the same degree as other Americans.

This is the result of a complex array of factors, which include Latinos' concentration in low-wage, low-skill sectors of the labor force. Hispanic workers are overrepresented in low-wage jobs in sectors of the economy that do not offer benefits, are not expected to grow, and/or are declining. According to 1998 data from the Department of Labor, the majority of male Hispanic workers are concentrated in fields such as craft and repair occupations, or as operators, fabricators, or laborers. At the same time, they are underrepresented in the fields projected to experience growth, such as professional specialty occupations, technicians, and marketing and sales.

A comprehensive policy strategy to promote economic opportunity for Latinos must contain several key elements: these include expansion of the Earned Income Tax Credit, which has been among the most affected anti-poverty strategy for Latinos, who are heavily concentrated among the working poor. An increase in the federal minimum wage would also have a significant impact on lifting working Latinos out of poverty. In

addition, the federal government must act to ensure that job-training programs, which traditionally underserve this population, equitably serve Latinos. In particular, trade adjustment assistance programs must be substantially reformed in order to serve Latino dislocated workers properly.

The federal government must also make it absolutely clear that all Americans are eligible for the same services and anti-poverty interventions on an equal basis. This means lifting the remaining restrictions on access to public services for legal immigrants. Even as the federal government and the states work together to increase health-care coverage for poor children, immigrants are excluded from this coverage. Even where immigrants are explicitly eligible for assistance, fear and confusion stemming from immigration policy prevents them from participating. These obstacles undermine the availability of health care to a population which is already the most uninsured group of Americans. These policies must change and access must be equalized.

## **AMERICANIZATION**

Earlier in the nation's history, this term was understood as a mandate to insist that Americans of Hispanic origin erase their ethnic identities. Today's Latinos are "retaking" this term in order to restore its true meaning, which implies respect for the ethnic heritage of Latinos and the strength that it provides to the larger society, at the same time that it underscores the unfulfilled promise that Latinos be made full partners in the American dream. Media coverage of Hispanic Americans and their concerns give the false impression that this is an "alien" community which neither shares the values nor is interested in speaking the language of the larger society. The reality of these communities indicates that the opposite is true. What defines Hispanic America is its work ethic, strong family values, and its commitment to contributing to the country we all share. It is the Latino communities themselves who take the lead in integrating new immigrants into the larger society, helping family members find housing, jobs, and facilities for learning English. Often these facilities are run by Hispanic community-based organizations operating on a shoestring budget.

It is long past time for America to make a formal investment in ensuring that Latino communities be supported in their efforts to integrate new immigrants into the larger society. This means investing in community-based English-language programs, citizenship classes, civic education, and other similar efforts. In addition, it is critical that the United States fulfill its promise of ensuring that Hispanic Americans receive equal protection under the law. This means ensuring that civil rights enforcement aggressively attack discrimination against Latinos, and that new strategies be developed and put in place which prevent and address police violence, harassment, and hate crimes against Latinos. It also means reopening discriminatory immigration laws which treat legal immigrants under a vastly different standard than U.S. citizens in terms of due process of law and access to a safety net.

## NCLR Foreign Project Policy Brief: The Hurricanes of 1998 and U.S. Foreign Assistance to Central America and the Caribbean

Prepared by Daniel A. Sepulveda, Policy Analyst

November 1998

### Background

In the wake of Hurricane Georges, Hurricane Mitch ripped through Central America during the last week in October 1998. Together, these hurricanes destroyed infrastructure and led to the loss of thousands of lives in Honduras, Nicaragua, El Salvador, Guatemala, Dominican Republic, and Puerto Rico.

Raul Yzaguirre, President of the National Council of La Raza (NCLR), and New York City Councilman Guillermo Linares jointly commend the governments, community-based organizations, private sector companies, and concerned citizens contributing their time and resources to assist Central America and the Caribbean during this difficult time. NCLR is concerned about the magnitude of the crisis and calls for a sustained U.S. public and private aid effort that does not end with the rains but continues over the next decade, providing needed reconstruction and development assistance to the region.

### Summary of the Damage

#### Hurricane Georges' Damage, September 1998

- **Dominican Republic:** 125 dead and 100,000 left homeless.
- **Puerto Rico:** 11 dead and over \$1 billion in damages.

#### Hurricane Mitch's Fury, October 1998

Tropical storm Mitch ravaged Central America for five days, leaving at least 10,000 dead, and 2 million homeless and 13,000 missing, according to government officials and relief workers.

- **Honduras:** An estimated 6,420 people died, 11,000 were injured, 12,000 are missing, and 600,000 were forced to evacuate their homes after storms hit in the last week of October. Mitch destroyed 70% of key crops.
- **Nicaragua:** Current figures show 1,330 dead, 1,903 missing, and 731,000 left homeless or displaced. As many as 1,500 people may have been buried in mudslides when the crater of Casitas Volcano collapsed, sending a wall of mud onto several villages below. One-third of the country is without water or electricity and up to a quarter of the infrastructure is seriously damaged.
- **El Salvador:** 174 dead, 96 missing, and 27,000 homeless.
- **Guatemala:** 100 dead, between 12,000 to 14,000 displaced.

## Providing Assistance

In places such as New York, Washington D.C., and Miami, where large groups of recent immigrants and other Hispanics live and congregate, the Latino community is leading efforts to promote aid to Central America and the Caribbean. Although all are concerned and frightened for their relatives back home and many are in mourning, Latinos are responding generously to the crisis. Thousands have taken money and supplies to their churches and community centers and more are asking where and how they can contribute. In addition, NCLR's sister organizations, including the League of United Latin American Citizens (LULAC) and others, are working to inform the public and mobilize relief efforts. Many aid agencies and the embassies themselves are accepting contributions to help Central American Flood victims. Here are some of them:

**American Friends Service Committee**

Hurricane Relief Fund  
1501 Cherry Street  
Philadelphia, PA 19102  
Telephone: 1-888-588-2372

**American Jewish Joint Distribution Committee, Inc.**

711 Third Avenue, 10th Floor  
New York, NY 10017  
Telephone: (212) 885-0832 or (212) 885-0889

**CARE**

151 Ellis Street NE  
Atlanta, GA 30303-2426  
Telephone: 1-800-521-2273

**Partners of the Americas**

1424 K Street NW, Suite 700  
Washington, DC 20005  
Telephone: (202) 628-3300

**Save the Children**

Hurricane Mitch Emergency Appeal  
PO Box 975-M  
54 Wilton Road  
Westport, CT 06880  
Telephone: 1-800-243-5075  
<http://www.savethechildren.org>

**Honduras Aid Hotline:** 202-362-3263

**Nicaraguan Embassy:** Has established a relief fund.  
For information call 1-800-348-2476.

**American Red Cross**

International Response Fund  
PO Box 37243  
Washington, D.C. 20013  
Telephone: 1-800-HELP-NOW  
Spanish: 1-800-257-7575

**Church World Services**

28606 Phillips Street  
PO Box 968  
Elkhart, IN 46515  
Telephone: 1-800-297-1516, ext. 222

**Catholic Relief Services**

PO Box 17090  
Baltimore, MD 21203-7090  
Telephone: 1-800-235-2772

**Salvation Army**

World Service Office  
615 Slaters Lane  
Alexandria, VA 22313  
Telephone: 703-684-5528

**Doctors Without Borders**

6 East 39th Street, 8th Floor  
New York, NY 10016  
Telephone: 1-888-392-0392

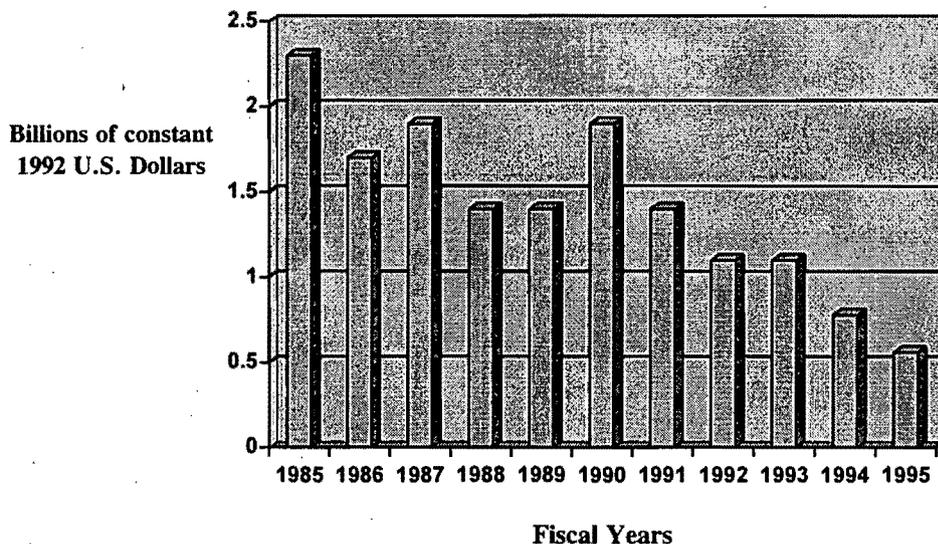
**Honduran Consulate in Houston:** (713) 622-7911

**Guatemalan Embassy:** Has a hotline (202) 745-4956  
and has also established a relief fund.

In addition to private and community contributions to the aid effort, the European Union has authorized \$8 million in humanitarian aid for Central America, and Germany has promised to

provide \$2 million. Mexico has also launched a massive relief effort delivering medicine and food via 12 cargo planes to its Central American neighbors. The United States provided \$3.7 million in aid between October 28, 1998, and November 5, 1998, and now plans a major airlift to supply \$20 million worth of food and \$30 million in equipment for rescue operations and rebuilding to the Central American nations devastated by the hurricane. NCLR commends President Clinton for his commitment of aid to the region. White House Deputy Chief of Staff Maria Echaveste is coordinating the effort for the Administration.

**Figure 1: U.S. AID assistance to Latin America 1985-1995**

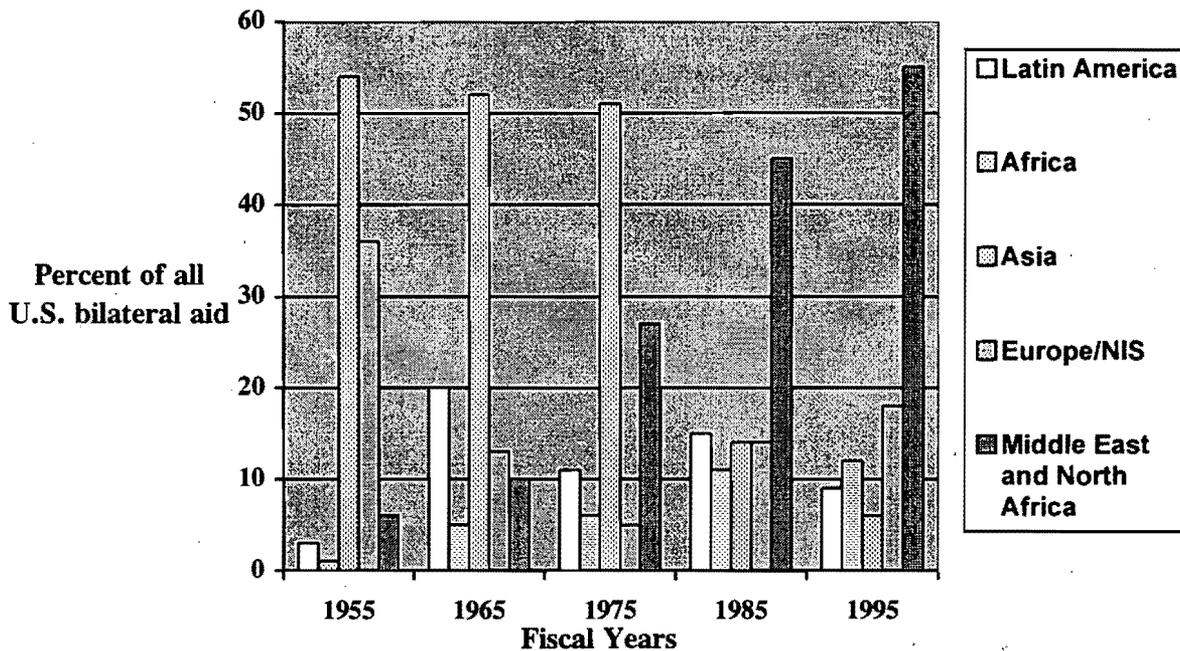


Source: Congressional Budget Office

### **Sustaining the Effort**

As time passes, the story will move out of the front pages of the newspapers but the need will remain. Many fear the worst is actually yet to come. Outbreaks of disease and food shortages are likely if the infrastructure is not repaired and resources are not delivered to the region. J. Brian Atwood, the head of the U.S. Agency for International Development (U.S. AID) has said, "This is the biggest crisis, the biggest disaster, we've faced in this hemisphere."

**Figure 2: U.S. Regional Aid as a Share of All Bilateral Aid  
1955-1995**



Source: Congressional Budget Office based on U.S. AID data

Clearly, the crisis will require a long-term, sustained aid effort if the region is to recover. Moreover, the economic damage as well as the human suffering experienced by Central America and Caribbean countries must be addressed in order to assure long-term recovery. Figures 1 and 2 illustrate, however, that U.S. commitment to providing aid to Latin America both in absolute dollars and as a proportion of all U.S. aid has declined dramatically over the last decade.

Thus, in addition to immediate relief programs, it will require a sustained advocacy effort by the Latino community and others to ensure that sufficient funds are committed to the region to effectively address the need and to ensure that those funds get to the people who need them. NCLR is urging all concerned Americans to: (1) contribute what they can to immediate relief efforts; (2) follow developments in this situation closely and (3) notify their public officials of their support for Central American relief efforts both short- and long-term.

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## HISPANIC UNEMPLOYMENT ISSUE BRIEF

October 1997

### I. Introduction

Hispanics\* are a significant and growing part of the American workforce, and yet they face persistently higher rates of unemployment than the population as a whole.

Employment status is a critical determinant of an individual's socioeconomic standing, and the barriers faced by Hispanics in the workforce are reflected in their high rate of poverty and low median earnings. Despite their willingness to work -- Hispanic men especially show very strong affinity for participation in the labor force -- Hispanics continue to experience disproportionately high rates of unemployment, particularly when compared to White men. Of particular concern, the Hispanic unemployment rate has declined very slowly after the last recession, and remains well over the White rate even after six years of economic growth. A significant social problem, joblessness may result in enforced idleness and reduced earnings even after a new job is found.

Historically high joblessness among Hispanics can be related to a large number of factors. A recent summary analysis of employment cited the relative youth of the Latino† population compared to other racial/ethnic groups; their lower levels of schooling; their tendency to be employed in vulnerable occupations; their concentration in central cities, where opportunities may be limited; and the likelihood that they will suffer workplace discrimination.<sup>1</sup> This Issue Brief examines Hispanic employment status with a particular emphasis on trends in unemployment. It also provides a discussion of possible explanations for disproportionate unemployment among Hispanics.

### II. Hispanic Employment Status

The Hispanic population was estimated to be 28.3 million in 1996, which represented 10.7% of the nation's total population.<sup>2</sup> Hispanics of working age are providing an important and rapidly growing contribution to America's workforce, yet face a number of obstacles. The following section provides an overview of the employment status of Hispanics, in order to provide context for the more detailed discussion of unemployment that follows.

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\* The term "Hispanic" is used by the U.S. Census Bureau to identify persons of Mexican American, Puerto Rican, Cuban, Central and South American, and Spanish descent. Hispanics may be of any race, and thus, Whites and Blacks may also be Hispanic.

† The terms "Hispanic" and "Latino" will be used interchangeably throughout this report.

- **One in ten in America's labor force is Hispanic.** The Bureau of Labor Statistics (BLS) reported that in June 1997, 13.8 million (10.1%) of the nation's labor force of 136.2 million was Hispanic.<sup>3</sup> Of this number, 12.8 million were working and 1.1 million were unemployed but actively seeking work.<sup>4</sup>
- **Data show that Hispanics are committed to work.** An important measure of this commitment is the labor force participation rate, which measures the percentage of working-age people who have jobs, or are looking for jobs. Although rates differ by gender, participation rates for Hispanics as a whole are consistently higher than for other worker groups. In June 1997, 68.0% of Hispanics participated in the labor market, which was higher than the rate for the entire labor force (67.1%), and for Whites (67.5%).<sup>5</sup>

**Table 1**  
**Employment Status Of The Population 16 Years and Over**  
**by Race and Hispanic Origin, Seasonally Adjusted, June 1997**  
 (Numbers in Thousands)

	Overall		White		Black		Hispanic	
	June 96	June 97	June 96	June 97	June 96	June 97	June 96	June 97
Population	200,459	203,000	168,222	169,897	23,579	23,978	19,184	20,293
Percent of Pop.	100%	100%	100%	100%	100%	100%	100%	100%
In Labor Force	133,709	136,200	112,940	114,691	15,010	15,398	12,624	13,807
Percent of Pop.	66.7%	67.1%	67.1%	67.5%	63.7%	64.2%	65.8%	68.0%
Employed	126,590	129,364	107,733	109,821	13,478	13,793	11,510	12,756
Percent of Pop.	63.2%	63.7%	64.0%	64.6%	57.2%	57.5%	60.0%	62.9%
Unemployed	7,119	6,836	5,207	4,870	1,532	1,605	1,114	1,051
Rate	5.3%	5.0%	4.6%	4.2%	10.2%	10.4%	8.8%	7.6%

Source: Bureau of Labor Statistics, U.S. Department of Labor.

- **Hispanics are less likely than Whites to be working part-time.** BLS defines part-time as working less than 35 hours per week. Although there were approximately 1.8 million Hispanics in part-time jobs during 1996, they were a smaller share of the part-time workforce overall. Some 15.8% of Hispanic workers, compared to 18.3% of all workers, were regularly in part-time employment in 1996, which suggests Hispanics' preference for full-time employment when available.<sup>6</sup> However, this also means that a segment of working-age Hispanics could have been better deployed in the workforce, doing full-time work.
- **Hispanics are more likely than others to work part-time for economic reasons.** Persons working part-time for economic reasons wanted and were available for full-time work, but had to settle for less than 35 hours a week, because they could not find a full-time job or their

employer did not have enough work for them. In 1996, 6.0% of Hispanic workers worked part-time for economic reasons, compared to only 3.2% of Whites and 4.7% of Blacks.<sup>7</sup> These data imply that Hispanics want to work full-time but often have to settle for less.

- **Hispanics are also more likely to work in “contingent” jobs, which are not permanent.** The contingent workforce refers to workers who expect their jobs to last for no more than one additional year, and have worked there for one year or less. Contingent jobs broadly include temporary, seasonal, and contract labor. In a February 1995 survey by BLS, 6.5% of employed Hispanics were contingent workers, compared to 4.6% of White workers. Put another way, Hispanics were 8.5% of all employed workers, but were 13.6% of contingent workers.<sup>8</sup> These data suggest that Hispanics disproportionately suffer employment insecurity.
- **The most obvious result of employment insecurity is unemployment.** As Table 1 on the preceding page shows, 7.6% of Hispanics in the workforce -- over one million persons -- were unemployed in June 1997.

### III. Hispanic Unemployment

Despite their apparent willingness to work, Hispanics suffer disproportionate unemployment. The ratio of Hispanic to overall unemployment was 1.52 in June 1997; that is, Hispanics were one and one-half times as likely to experience unemployment than the labor force as a whole. This unemployment “gap” is even more dramatic when comparing Hispanic and White non-Hispanic rates. In 1994, 1995, and 1996, the ratio of Hispanic to White non-Hispanic unemployment was 2.06, 2.11, and 2.12, respectively.<sup>9</sup> As the data below reveal, high unemployment cuts across all major age groups, both sexes, and Hispanic subgroups. However, important factors associated with employment and unemployment do vary considerably by subgroup, and care is needed to draw out the different experiences of a diverse people.<sup>10</sup>

- **Hispanic families are almost *twice* as likely to have one or more unemployed members than Whites.** In 1996, 82.2% of Hispanic families had at least one employed member -- slightly over the national average of 81.4%. However, 13.0% of Hispanic families had at least one unemployed member, compared to 7.6% of all families and 6.7% of White families. The rate for Black families was 13.8%. Thus, despite this further evidence that Hispanics work, unemployment among Latino families remains disproportionately high.
- **Most Hispanic unemployment results from job loss; few unemployed Hispanics leave their jobs voluntarily.** In 1996, the primary cause of unemployment for Hispanics, as for the population as a whole, was job loss or completion of temporary work (48%). More than one-fifth (22%) of the total were permanent job losers, 33% were re-entrants to the labor market after some absence, 11% were new entrants who had never worked, and only 8% had left their jobs of their own accord. By comparison, 11.4% of Whites and 8.6% of Blacks left their jobs voluntary in 1996.<sup>11</sup> Thus, the interruption in earnings that Hispanics suffer from unemployment is, for the most part, unplanned and unwanted.

## What Does the Unemployment Rate Measure?

The headline national rate of unemployment, 5.0% in June 1997, is derived from a nationwide survey by BLS. Some 50,000 homes are surveyed monthly and from this data BLS compiles and publishes a comprehensive statistical picture of employment in America. The civilian non-institutional labor force is made up of employed persons 16 years and older (in effect, people who did work for pay or profit during the BLS survey week) plus the unemployed. **The unemployed are persons who do not have a job, but are available to work, and have looked for work in the past month.** In order to put the Hispanic employment experience into context, it may be useful to define some key terms and give information about the labor market as a whole.

- **People become unemployed in several ways.** Most unemployed persons have lost their jobs or finished a temporary job (46.2% in June); others, termed "re-entrants," are returning to the labor market after having children, going to school, or choosing not to work for some other reason (34.6%), and some may be newcomers, or "entrants," to the labor market in search of their first job (7.1%). Finally, some have quit their jobs to find other employment (12.2%).
- **Many suffer job loss because of "worker displacement," especially in the manufacturing industry.** Displaced workers are defined by BLS as persons over 20 years of age, who have lost or left jobs because their plant or company closed or moved, had insufficient work for them, or abolished their position altogether. Displaced workers are included in monthly unemployment statistics, and BLS collects additional information to track and aid in the mitigation of job displacement. Between January 1993 and December 1995, 9.3 million workers were displaced, and, overall, 71.6% had found employment by February 1996.<sup>12</sup>
- **Many people of working age are not part of the labor force.** Non-labor-force participants may do unpaid work, be retired or in school, or not want a job at all. Additionally, some may be "discouraged workers," who are pessimistic about their prospects for finding employment and have stopped looking, although they still wish to work. In 1996, there were an average of 66,000 discouraged Hispanic workers.
- **Those who are outside the labor force but want to work are sometimes included in wider definitions of unemployment, or "underemployment."** Underemployed persons are those who are not working, or are working fewer hours than they would like, for labor market reasons. Underemployment has a significant effect on individuals because it results in reduced personal earnings, and on the nation as a whole because it represents underutilized labor resources. By one BLS measure, 10.3% of the nation's labor force was classified as underemployed in December 1996.<sup>13</sup>
- **Labor force participation rates are important variables in analyzing unemployment status.** Some people respond to prolonged joblessness, or the likelihood that they will not find work, by dropping out of the labor force. Still others may be pessimistic about their prospects and never seek employment. These people are not counted among the official unemployed, and so analysts must be sensitive to the relationship between the working-age population as a whole, the labor force (those working or seeking work), and the numbers of employed and unemployed. A change in economic conditions facing a particular group may not be fully reflected in their actual unemployment rates because of changing participation rates. For instance, an economic upturn may result in people reentering the labor market, which would temporarily increase unemployment, while a downturn might result in withdrawals from the labor market and mask the true extent of joblessness.

• **The employment-to-population ratio provides insight into unemployment levels.** The employment-to-population ratio, i.e., the percentage of the whole population that is working, can be a useful gauge of changing fortunes, since it measures the overall employment of a population group. Employment needs to keep pace with the growth of a population in order to maintain socioeconomic status and prevent declining standards of living. Declining employment-population ratios may indicate falling employment relative to a growing population.<sup>14</sup>

- **Hispanics are unemployed slightly longer than the population as a whole.** The mean length of time unemployed Hispanics were out of work in 1996 was 17.6 weeks and the median duration was 8.8 weeks. These figures are worse, but not dramatically so, than those for the population as a whole; 16.7 weeks and 8.3 weeks, respectively.<sup>15</sup> This suggests that the higher incidence of Hispanic unemployment may result from more frequent spells of joblessness. Detailed information about unemployment spells by race and ethnicity is not regularly tabulated by BLS, but it is possible to compare those reporting two or more spells in the last year. In 1995, 33.4% of Hispanic men, and 28.1% of Hispanic women, who were unemployed at some point during the year, experienced two or more spells of unemployment; 6% and 12% higher than for White men and women, respectively.<sup>16</sup>
- **Hispanics are more likely to experience long-term unemployment.** In 1996, over one-third (34%) of the Hispanic unemployed were jobless for more than 15 weeks, compared to 32% for the population as a whole and 30% for Whites. In addition, long-term joblessness -- over 27 weeks -- was greater for Hispanics than for Whites by three percentage points in 1996, with 20% of Latino men and 17% of Latina women suffering extended unemployment. Finally, one in ten unemployed Hispanic workers was jobless for 52 weeks or more in 1996.
- **Hispanics, once unemployed, are less likely than others to receive unemployment insurance.** Research has shown that, for a variety of reasons, including employment patterns in seasonal work and policy and administrative practices of state agencies, low reciprocity rates of unemployment insurance are especially marked among Hispanics. In 1989, less than one-fifth (18.0%) of unemployed Hispanic workers received unemployment insurance benefits, compared to two-fifths (40.0%) of White non-Hispanics, despite the fact that their respective unemployment rates were 8.0% and 4.5%.<sup>17</sup> This is especially troubling given that Hispanics are likely to have long spells of unemployment, and increases the urgency of reducing Hispanic unemployment, since it suggests that the financial consequences of job loss may be worse for Hispanics than for others, at least in the short term.
- **Hispanic young people are particularly vulnerable to joblessness.** In 1996, Hispanics 16 to 19 years old were unemployed at a rate of 22.5% for men and 25.1% for women. The comparable rates for Whites were 14.3% and 11.4%, respectively. Labor force participation and employment rates were also considerably lower for Hispanics than Whites at this age.

**Table 2**  
**1996 Average Male Unemployment Rates**  
**by Age, Race, and Hispanic Origin**

Age		White Non- Hispanic	Black & Other	Hispanic Overall	Mexican	Puerto Rican	Cuban	Central & South American
Total 16+		4.3	9.5	7.9	8.2	8.6	6.4	7
16-19		14.3	33.5	22.5	23.1	29.7	7.8	15.3
	16-17	16.7	35.5	31.5	31.8	38.8	11.5	27.7
	18-19	12.5	32	18.4	19.3	25.5	6.8	8.4
20+		3.7	8.1	6.9	7	7	6.3	6.5
	20-24	7.6	16.6	10.3	9.7	15.6	10.9	8.9
	25-34	3.8	8.4	6.6	6.5	7.8	6.6	6.3
	35-44	3.2	6.7	6.3	6.7	5.2	6.2	5.4
	45-54	3	5.8	5.1	5.1	2.5	9.3	5
	55-64	2.9	4.8	6.7	7.5	5.5	1.8	9.2
	65+	3	4.6	8.3	10.6	5.5	3.6	15

Source: Bureau of Labor Statistics, Unpublished tabulations from Current Population Survey.

- In terms of unemployment, Hispanic women do worse in every age category than their White non-Hispanic counterparts.** Across all ages, Latinas are *twice* as likely to be unemployed than White non-Hispanic women (see Table 3 below). For the prime 20-and-over age group, joblessness is almost three times the comparison rate (9.2% compared to 3.6%). Despite five years of recent economic growth, one in ten Mexican and Puerto Rican origin women was unemployed in 1996.
- Unemployment rates vary dramatically across Hispanic subgroups.** Tables 2 and 3 compile the unemployment rates for men and women of different ages for each of the Mexican, Puerto Rican, Cuban, and Central and South American origin subgroups. The overall rates are highest for Puerto Ricans and lowest for Cubans. Young Puerto Ricans (persons in the 16-19 year age range) are unemployed at a rate higher than that of Whites or other Latinos; in 1995, unemployment for Puerto Rican males in this age group reached a high of 38.6%; the following year the rate had recovered to 26.3% -- still, over one-quarter of this population remained unemployed.

**Table 3**  
**1996 Average Female Unemployment Rates**  
**by Age, Race, and Hispanic Origin**

Age		White Non- Hispanic	Black & Other	Hispanic Overall	Mexican	Puerto Rican	Cuban	Central & South American
<b>Total 16+</b>		4.1	9	10.2	11	10.8	8.3	8.4
<b>16-19</b>		11.4	27.7	25.1	26.2	21.9	25.1	22.3
	16-17	13	31.3	28.2	31.8	22.4	0	30.2
	18-19	10.2	25.4	23.3	23.2	21.5	38.2	18.5
<b>20+</b>		3.6	7.9	9.2	9.7	10	7.7	7.8
	20-24	6.3	15.8	14.1	14.1	20.7	7.1	10.1
	25-34	4.1	9.6	8.5	9.1	10.4	5.6	7.1
	35-44	3.2	6.5	8.7	9.1	7.8	7.1	8.8
	45-54	2.8	3.9	7.2	7.5	4.4	9.9	6.8
	55-64	2.8	4.7	8.1	9.1	9.1	9.6	5.6
	65+	3.7	5.4	8	9.3	14.9	9.1	0.5

Source: Bureau of Labor Statistics, Unpublished tabulations from Current Population Survey.

#### IV. Historical Trends in Hispanic Unemployment

Over the past two decades, the average unemployment rate for Hispanics overall was 10.1%. For Mexicans, Puerto Ricans, and Cubans, it was 10.4%, 12.6%, and 8.0%, respectively. By comparison, the average rate for Whites over the same period was 6.0%. The following section considers, first, the historical experience of unemployment among Hispanics as a whole, and second, the experience of Hispanics by subgroup.

##### The Importance of the Economy to Hispanic Unemployment

- **Hispanic unemployment has been more sensitive to changing economic conditions than White unemployment.** One study showed that, during the severe 1981-82 economic recession, for example, about 15 Hispanics (and 17 Blacks) became unemployed for every 10 white males.<sup>18</sup> Other evidence shows that the latest recession was particularly bad for Hispanics. Layoff rates for the 1990-91 period, for example, were 6.8%, well over the White rate of 5.7%, and slightly higher than the Black rate (6.6%).<sup>19</sup> This is in contrast to previous years in which Hispanic layoff rates were actually *lower* than those for Whites.

- **The labor force participation rate for Hispanics did not recover its 1989 peak until 1997 -- six years after the recession officially ended.** In June 1997, the Hispanic labor force participation rate climbed to 68.0% (higher than either the White or Black rate). A similar trend is evident in the Hispanic civilian employment-population ratio, which peaked in 1989 (62.2%) and only regained that level this year (62.6% -- still below the White rate of 64.6%). These data suggest that, during the 1990s, Hispanics were less willing than in the past to enter the labor market and search for work, and that when they did so, they were not being employed at rates comparable to 10 years ago.
- **Worker displacement is greater for Hispanic than for Whites, but proportionate to their share of the workforce.** According to the General Accounting Office, Hispanics' risk of displacement was some 15% higher than Whites' during the 1990-1991 recession.<sup>20</sup> However, conflicting data for the 1987-1992 period show that displacement was actually in rough proportion to population; Hispanics represented 9% of the 5.6 million workers displaced during that period.<sup>21</sup>
- **Hispanic displacement rates were proportionate between 1993 and 1996, but recovery from displacement was harder for Hispanics than for Whites.** Of the 9.4 million Americans displaced from work between January 1993 and December 1995, 10.0% were Hispanic, which was proportionate to their share of the labor force. However, Hispanics were less likely to be reemployed following displacement. Approximately 14% of Whites displaced between January 1993 and December 1995 were unemployed at the time of the BLS survey; by contrast, 25% of Hispanics and 26% of Blacks were without work. Furthermore, although they were more likely to be unemployed at the time of the survey than Whites, their average unemployment spell was actually one week shorter than that of Whites.
- **Patterns of Hispanic unemployment may be changing.** One way to analyze changes in unemployment is to track the size of "peaks" and "troughs" as the economy goes through cycles. In the past, Hispanic unemployment rates peaked at 12.2% (1975), 13.8% (1982), and 11.6% (1992). Low points were 8.3% (1979), 8.0% (1989), and 8.1% in 1997. Thus, while the "troughs" have not changed significantly over time, the "peaks" are somewhat lower, and the difference less great.

### **Unemployment Among Hispanic Subgroups**

- **Among Hispanic subgroups, Puerto Ricans have experienced the highest unemployment rates.** The peak Puerto Rican unemployment rate was 14.1% in 1992 (compared to 17.6% in 1982); followed by Mexicans, whose rate peaked in 1992 at 11.7% (14.7% in 1982); and Cubans at 8.1% in 1991 and again in 1994 (their previous peak was 11.9% in 1983). Currently, none of the three groups has reached their historic lows either (8.6% for Puerto Ricans in 1988, 8.2% for Mexicans in 1979 and 1990, and 5.0% for Cubans in 1988).

- **Employment-to-population ratios among Hispanic subgroups have also generally failed to recover their highs of the late 1980s.** The ratios for Mexican- and Cuban-origin Hispanics both peaked in 1988 at 63%, while the ratio for Puerto Ricans peaked in 1989 at 52%. The Mexican ratio fell to 60% in 1991, 1992, and 1993, and then plummeted to 56% in 1994 and 1995; it had only reached its 1987 level of 61% by the end of 1996. The Puerto Rican employment rate dropped to 49% during that time period (1992, 1993, and 1994), while that of Cubans fell to 55% (1993 and 1994).
- **Average unemployment rates remain much higher for Latino subgroups than for Whites.** Because of changes in the way BLS collects data, comparisons of labor force *levels* over time must be done with caution. Nonetheless, unemployment *rates* can still effectively be compared. Table 4 shows the annual average unemployment rates for various populations, and provides ratios to the White rate for purposes of contrast.

**Table 4**  
**Unemployment Rates by Hispanic Subgroup Compared to White Rate**  
**Annual Averages for Various Years, Percent**

Unemployment Rates	Overall Hispanic	Mexican	Puerto Rican	Cuban	White
Average, 1976-96	10.1	10.4	12.6	8.0	6.0
Average, 1986-96	9.4	9.9	11.1	6.9	5.4
Average, 1990-96	9.8	10.0	11.4	7.7	5.5

Ratios	Hispanic Rate/ White Rate	Mexican Rate/ White Rate	Puerto Rican Rate/ White Rate	Cuban Rate/ White Rate
Average, 1976-96	1.71	1.76	2.11	1.34
Average, 1986-96	1.76	1.85	2.07	1.29
Average, 1990-96	1.79	1.83	2.08	1.41

Source: Calculated by NCLR based on BLS data.

- **Average unemployment rates are neither significantly worse nor better than in past years.** The unemployment gap has not improved in 20 years, and in the last decade has worsened marginally for all but the Mexican subgroup (see Table 4). The 1990s have been difficult for Hispanics; deep disparities in unemployment persist, especially for Puerto Ricans, who have suffered unemployment rates twice as high as Whites since data became available.

## V. Explaining Disproportionate Hispanic Unemployment

The academic literature suggests roughly three kinds of explanations for disproportionate minority employment outcomes: *structural*, which focus on economic variables and the place of a group in the economy; *human capital*, which identify skills and other variables specific to individual members of a group; and *discrimination-related*, which focus on obstacles based on some inherent characteristics of a group - real or perceived - after controlling for other variables.

### Structural Explanations

#### Sensitivity to Business Cycle

Research cited in Section IV shows that Hispanics have traditionally done worse than others during economic downturns, experiencing high unemployment as a result. The high incidence of unemployment may be due to a number of shared characteristics, e.g., Hispanics may have less experience in their jobs or have less education. Both factors have traditionally been associated with a greater likelihood of being laid off.<sup>22</sup> Tenure, for example, is important because employees may be let go during downturns on the principle of "last in, first out."

On the other hand, the same data showed that Hispanics also benefited disproportionately from economic expansions, with their unemployment rate in the past falling faster than that of other groups. One explanation may be that they are more eager to return to work than others, or perhaps more willing to accept lower-paid jobs. Since their employment has recovered slowly during the 1990s, research is needed to determine whether Hispanic sensitivity to economic conditions has changed in the 1990s, and to discover the reasons for this change, if any.

#### Geographic Differences: States & Localities and the 1990-1991 recession

The nationwide trends for groups tend to reflect the changing local fortunes of states within which they are located,<sup>23</sup> and Hispanics appear to have lived in precisely the wrong places during the last downturn. Although there may be long-term trends which should be distinguished from effects particular to the latest recession, the delayed recovery of Hispanic employment this decade may stem in part from their concentration in states most negatively affected.<sup>24</sup>

In 1995, nearly three-quarters (74%) of U.S. Hispanics were concentrated in five states: California, Texas, New York, Florida, and Illinois. California was particularly hard hit by the last recession; the unemployment rate in the state was the same as the national average in 1990, but increased to 140% of the average in 1994 and 1995, and still 130% in 1996. New York's rate was also well above the national average, ranking 8th highest in the nation in 1995. Florida, Illinois, and Texas fluctuated between 93% and 107% of the national rate during the decade. In addition, one researcher noted that Puerto Ricans were at a particular disadvantage during the past recession because of their concentration in New York, New Jersey and Connecticut, three states with severe employment declines.<sup>25</sup>

The five cities with the largest Hispanic populations at the time of the 1990 Census were New York, Los Angeles, Chicago, San Antonio, and Houston. New York City and Los Angeles had very severe unemployment compared to the national average during the last recession, and were both still over 150% of the average in 1996. The remaining cities were at or below the average as the decade progressed.

Further research is needed to compare the impact of these state and local variations on Hispanics.

### **Spatial Mismatch**

A longer-term structural effect is the shift of employment out of central cities where minority populations tend to be concentrated. The spatial mismatch thesis emphasizes that minority populations, including Hispanics, often neither reside where new jobs are located, nor find themselves in areas with opportunities that are likely to be permanent and/or offer prospects for accumulating training and enhanced skills. The shift of jobs out of cities is thought to be the result of long-term trends in the national economy, and, as an urban population concentrated in several states, Hispanics may be especially vulnerable to these changes.<sup>26</sup>

### **Industrial Change**

Hispanics are concentrated in high-unemployment industries. In 1995 and 1996, unemployment was highest in construction (11.5% and 10.1%), apparel manufacturing (10.3% and 8.6%), and agriculture (11.1% and 10.2%). Hispanics represented 10.4% of construction workers, 24.5% of apparel workers, and 17.7% of the agricultural workforce in 1996. The last downturn was also severe for the retail and services sectors, other occupational fields where Hispanics are concentrated. However, the impacts of the last recession may mask deeper structural trends away from particular industries. The deindustrialization thesis emphasizes the significant losses in manufacturing during the 1970s and 1980s, which in part explains high unemployment among Puerto Ricans, who were heavily concentrated in that sector.

### **Occupational Concentration**

There is evidence that Hispanics are concentrated in occupations that are vulnerable to cyclical increases in unemployment, as well as declines in employment. Some economists argue that labor markets are divided into a "primary" sector of better jobs and a "secondary" sector of jobs that do not pay as well, require fewer skills, and are less secure.<sup>27</sup> Employment in the secondary sector may be especially affected by seasonal changes and economic downturns, and is likely to have higher rates of turnover. Hispanics are disproportionately represented in the service; operator, fabricator, laborer; and precision production, craft, and repair occupations, all areas which experienced disproportionate unemployment in the mid-1990s.<sup>28</sup>

### **Demographic Factors**

Several features particular to the Hispanic population impact their labor market outcomes. The relative youthfulness of the population, for example, may push up overall unemployment rates. The median age of Hispanics in 1996 was 26.4 years, nine years less than that of White non-Hispanics. Statistics show that joblessness among young people is disproportionately high for all worker groups, in part because of lower job tenure. Length of job tenure can affect an

employee's chances of being retained during periods of corporate downsizing, because the employee with inadequate tenure may have less experience and be considered less valuable to the company. Once out of work, a lack of extensive work experience is another disadvantage to many young people. Finally, younger people are more likely to be labor market entrants searching for their first jobs than older workers.

Tenure effects are likely to disadvantage the Hispanic workforce. Over three-fifths (63%) of Hispanic workers had less than five years' tenure in February 1996, compared to 54% of Whites. The figure jumps to 84% for workers with 0-10 years' tenure, compared to 74% for Whites.<sup>29</sup> Future research should determine the effect and underlying cause of such differentials.

Additions to the Hispanic population through immigration may also have effects on unemployment. Unemployment is higher among foreign-born than U.S.-born Hispanics; the unemployment rate for foreign-born Hispanics in 1996 was 10.2%, compared to 8.9% for all Hispanics.<sup>30</sup> Higher unemployment may result because newly arrived immigrants are labor market entrants and may take longer to find work,<sup>31</sup> or because of their relative youth, inexperience, low levels of educational attainment, or limited English proficiency. Thus, inasmuch as the foreign-born component of the Hispanic population increases, so too will overall unemployment. However, econometric research shows that immigration from Spanish-speaking countries does not, on balance, lower the earnings or employment chances of native-born Hispanics.<sup>32</sup>

## **Human Capital Factors**

Most studies agree that human capital factors, such as schooling, training, experience, and English language ability, are essential determinants of Hispanic economic status, and most likely contribute to the potential for unemployment. In particular, high levels of education correlate with a greater likelihood of success in the job market, including high earnings and economic mobility and stability. Similarly, workers who experience high rates of unemployment, like many Hispanics, tend to be those with low levels of education or skills that do not transfer to a range of industries or sectors.<sup>33</sup>

## **Educational Attainment**

The educational attainment of Hispanics is markedly lower than that of the rest of the population.<sup>34</sup> Particularly troubling is the small proportion of workers in the 25-34 year age range with high school diplomas. In 1995, 52.9% of Hispanic men and 53.8% of Hispanic women were high school graduates, compared to 83.0% of White men and 83.0% of White women.<sup>35</sup>

Comparatively lower educational achievement among Hispanic workers may account in part for a range of employment-related statistics, including their concentration in low-wage, low-skill, and high-turnover jobs and industries. Educational level may also directly affect their likelihood of experiencing unemployment. One empirical analysis found that 70% of the difference in unemployment probabilities between Hispanic and non-Hispanic men could be eliminated by

equalizing educational attainment.<sup>36</sup> In addition, data show that Hispanic young people are not well equipped to find and keep jobs which require high levels of literacy and numeracy. Furthermore, the disadvantage of poor educational attainment appears to be intensifying. Economists believe that job creation is likely to be greatest in occupational areas demanding high skills, and employers obviously see solid educational qualifications as evidence of the competencies and adaptability necessary in the modern workplace.

Finally, if those who emphasize the structural causes of unemployment are correct, improvements in educational attainment for Hispanics as a whole will only be translated into reduced average unemployment if other economic trends begin to move in the right direction.

### **English Language Proficiency**

Language ability is an issue of particular concern to the Hispanic community. Research shows that English language proficiency is an important factor in both educational attainment and labor market outcomes, including employment. Furthermore, poor language skills can also contribute to employer discrimination. Future research should seek to distinguish the role of education and language proficiency from other effects on individuals; for Hispanics, Whites, Blacks, as well as Hispanic subgroups. This research might help to confirm aggregate level analyses suggesting that Hispanics are underserved by training programs and suffer skills-mismatch problems.

### **Discrimination**

There is persuasive evidence that Hispanics suffer high levels of discrimination in the labor market, including discrimination in job placement, occupational level, and earnings.<sup>37</sup> Survey data show that there are widely-held negative stereotypes about Hispanics, which appear to translate into discriminatory hiring and firing practices by employers. The result may be twofold; on the one hand, there is a direct effect on the likelihood of unemployment for individuals, and, on the other, an indirect effect which strengthens the structural patterns discussed above, by segregating Hispanics into vulnerable jobs, for example.<sup>38</sup>

Given the difficulties in observing and measuring bias in decision-making directly, discrimination has often been treated as a residual variable by economists, i.e., the explanation of last resort after all other possible factors have been taken into account. Studies using socioeconomic data from BLS, in particular, usually equate the residual with discrimination.

However, more detailed sociological surveys have found discrimination to be a potent and direct explanation for inequality in labor market outcomes. For example, early results from the Multi-City Study of Urban Inequality suggest that skill and spatial gaps do not completely explain differences in outcomes. Instead, very significant racial barriers remain, e.g., employers reported a range of race-sensitive hiring prejudices and practices.<sup>39</sup> Other research confirms the presence and persistence of discrimination. For example, a study of unemployment in New England found that, in addition to structural difficulties, such as unequal educational opportunities and relegation to vulnerable jobs, institutional biases such as stereotyping and direct discrimination increased Hispanics' likelihood of unemployment.<sup>40</sup>

## VI. Areas for Further Research and Policy Attention

There is a pressing need for research which goes beyond the enumeration of statistics regarding the causes of Hispanic unemployment.<sup>41</sup> In particular, research taking advantage of longitudinal data from the Census Bureau's Current Population Survey (CPS) or the Panel Study on Income Dynamics, which includes data from the latest economic recession and recovery, is needed in order to sort through and rank the various independent and interrelated causes of unemployment among Hispanics and Hispanic subgroups.

The following areas in particular merit additional study:

- The slow recovery of Hispanic employment since the recession of 1990-91, compared to the recession of 1981-82, and whether Hispanic unemployment is more vulnerable to changes in the national economy than in the past
- The impact of state and local economies on Hispanic employment status and the relation of unemployment at these levels to national trends
- The cause and effect of low Hispanic job tenure
- The quantifiable impact of English language proficiency on Hispanic labor market outcomes
- The measurable effect of employment discrimination on Latino employment
- An identification of factors which explain Hispanics' low receipt of unemployment insurance despite high levels of unemployment
- Strategies both to "enhance" jobs at the low-end of the market where Latinos work and to move Latinos into areas of the labor force that are growing and in which they are underrepresented
- The identification and implementation of effective on-the-job training and job-based opportunities for advancement for Latinos, since they are especially likely to be in the workforce and have limited skills and experience
- The continued high rate of displacement among Hispanic workers, particularly as a result of the North American Free Trade Agreement (NAFTA); and how programs, like the Department of Labor's (DOL) NAFTA-Trade Adjustment Assistance program, can help mitigate the effects
- The composition and status of the Hispanic part-time workforce

The labor market status of Hispanics is extremely varied and increasingly important to the nation's economy. While a large segment of Latinos are in the labor force and working, a sizable proportion hold low-wage jobs or experience high unemployment. As the above discussion has illustrated, high Hispanic unemployment is the result of a combination of factors, some of which are likely to be mutually reinforcing. Nevertheless, Hispanics' concentration in both the low-wage labor market and economically disadvantaged places -- variables which tend to be especially vulnerable to economic downturns -- are two of the primary causes. Hispanics' relatively low educational attainment, as well as employment discrimination that limits their access to high-paying jobs or promotions, are other contributors to their high incidence of unemployment. The multiple variables associated with the high Latino unemployment rate and the persistently wide "gap" between Hispanic and White unemployment suggest that concerted action in several areas is needed.

In addition to the research gaps that need to be filled, public policy can be influential in better understanding, addressing, and improving the high incidence of unemployment that affect Latino workers. Specifically:

- **Training programs designed to improve the economic prospects of low-skilled workers must equitably serve Latinos.** Recent data show that, for the first time ever, the Job Training Partnership Act (JTPA) program is serving eligible Hispanics proportionately. This is especially encouraging and may offer some avenues for other programs, such as Welfare-to-Work, Job Corps, and federal apprenticeship programs to follow suit. In addition, such programs should provide English language and literacy training for those workers who need to improve their proficiency, since this is a key ingredient for economic stability in the current labor market.
- **Government agencies should seek to increase their representation of Hispanic workers.** Latinos are underrepresented at all levels of government, despite their active participation in the workforce and their growing proportion of the nation's population. This sector of the labor force represents both secure and well-paying opportunities; an increase in the proportion of Latino workers in such jobs could, over time, contribute to the community's overall economic stability.
- **Civil rights protections must be strengthened and enforced to foster the upward mobility of Hispanic workers.** There is sufficient evidence that points to the negative effects of employment discrimination on the opportunities and earnings of Latino workers. Current efforts to dismantle affirmative action and policies which exacerbate discrimination against Hispanics threaten further to erode Hispanic economic gains and possibly increase Latino unemployment.

- **State Departments of Labor, especially in the five states where three-fourths of Latinos live, should identify and address the reasons for the disproportionately low levels of receipt of unemployment insurance by unemployed Hispanic workers.** Additional information is needed to determine why eligible Hispanic unemployed workers are not receiving these important benefits, or the potential services that state offices provide. Further, strategies should seek to ensure that unemployed, eligible Hispanic workers take advantage of their access to this program.
- **Private sector employers should play a larger role in enhancing low-paying jobs and minimizing the effects of unemployment spells.** Employers, particularly those in service and other low-paying sectors, should be strongly encouraged to provide health insurance, pension benefits, and flexible work schedules. Such benefits, particularly health care coverage, can be crucial to unemployed workers looking for jobs.

Although Latino labor force participation data are encouraging, the trends with regard to occupational concentration and unemployment are discouraging, especially given that Latinos constitute a growing and increasingly potent segment of the nation's workforce. Furthermore, a significant proportion of Latinos have not recuperated as quickly from the last recession, or benefited as much from the robust recovery other Americans. Both factors have had an adverse effect on Hispanic earnings, income, and poverty levels. However, continued Hispanic commitment to work, combined with education and employment policy initiatives and private sector support, can reverse such trends. Given the size, strength, and significance of Latino workers, investments in this key worker population will translate into both improved employment prospects for the Latino unemployed, as well as the continued vibrancy of the U.S. economy.

Prepared by NCLR Consultant Alix Howard, with assistance and support from NCLR Policy Associate Jonathan Njus. Edited by Sonia M. Pérez, Director, Poverty and Employment Projects, and Cristina Bryan, Editor, October 1997.

## ENDNOTES

- <sup>1</sup> U.S. Bureau of Labor Statistics, "Fact Sheet on Black and Hispanic Workers." Washington, D.C.: U.S. Department of Labor, April 1996.
- <sup>2</sup> Calculations made by NCLR based on U.S. Bureau of the Census, *U.S. Population Estimates by Age, Sex, Race, and Hispanic Origin: 1990 to 1996*, PPL-57R. Washington D.C.: U.S. Government Printing Office, April 1997.
- <sup>3</sup> Data for June, 1997 are drawn from U.S. Bureau of Labor Statistics, "The Employment Situation: June 1997," Press Release USDL 97-218. Washington D.C.: U.S. Department of Labor, 1997. Available Online: <http://stats.bls.gov:80/newsrels.html>.
- <sup>4</sup> Statistics may be slightly off due to rounding.
- <sup>5</sup> It should be noted, however, that participation rates differ among Hispanic subgroups. High Mexican-American rates contrast with low and highly variable Puerto Rican rates, reflecting in part their different age structures; see, for example, Reimers, Cordelia W., "Hispanic Earnings and Employment in the 1980s," in Stephen Knouse, Paul Rosenfeld, and Amy Culbertson, eds., *Hispanics in the Workplace*. Thousand Oaks, CA: Sage Publications, 1992.
- <sup>6</sup> U.S. Bureau of Labor Statistics, "Household Data Annual Averages," *Employment and Earnings*. Washington D.C.: U.S. Department of Labor, February 1997. Available Online: <http://stats.bls.gov/cpsaatab.htm>.
- <sup>7</sup> Calculations made by NCLR based on unpublished tabulations from the March 1996 Current Population Survey.
- <sup>8</sup> Calculations made by NCLR based on U.S. Bureau of Labor Statistics, "New Data on Contingent and Alternative Employment Examined by BLS," Press Release USDL 95-318. Washington, D.C.: U.S. Department of Labor, August 17, 1995. The first is a wider measure of workers who do not expect their jobs to last and the second is limited to those who expect that their jobs will last for an additional year or less and have worked there one year or less.
- <sup>9</sup> Calculated by NCLR based on *Employment and Earnings*, op. cit.
- <sup>10</sup> "Hispanic Earnings and Employment in the 1980s," op. cit., p. 30.
- <sup>11</sup> Unpublished tabulations from the March 1996 Current Population Survey.
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- <sup>13</sup> Underemployment statistics, designated "U-6," add those who have part-time jobs for economic reasons, the unemployed, discouraged, and other marginally-attached workers. See Table A-7 in "The Employment Situation: June 1997," op. cit.
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- <sup>16</sup> DeFreitas, Gregory, *Inequality At Work*. New York, NY: Oxford University Press, 1991, p. 133.
- <sup>17</sup> Nichols, M.E., I. Shapiro, and R. Greenstein, *Unemployment Insurance in States With Large Hispanic Populations*. Washington, D.C.: Center on Budget and Policy Priorities, 1991; and U.S. Bureau of Labor Statistics, *How the Government Measures Unemployment*, Report 864. Washington, D.C.: U.S. Department of Labor, February 1994.
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- <sup>19</sup> U.S. General Accounting Office, *Equal Employment Opportunity: Displacement Rates, Unemployment Spells, and Reemployment Wages by Race* (GAO/HEHS-94-229FS). Washington, D.C., September 1994.
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- <sup>21</sup> U.S. Bureau of the Census, "Displaced Workers by Selected Characteristics: 1992," Table 651, *Statistical Abstract of the United States*. Washington, D.C., 1995.
- <sup>22</sup> *Equal Opportunity: Displacement Rates, Unemployment Spells, and Reemployment Wages by Race*, op. cit., p.8.
- <sup>23</sup> "Hispanic Earnings and Employment in the 1980s," op. cit., p. 43.

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- <sup>24</sup> Reimers suggests that improvements in the employment situation of Mexican men relative to Puerto Rican and Cuban men during the 1980s may have been due to their location in the (then) relatively healthy labor markets of Texas and California; "Hispanic Earnings and Employment in the 1980s," *op. cit.*, pp. 42-3.
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- <sup>31</sup> "Growing Presence of Hispanics in the U.S. Work Force," *op. cit.*, p. 9, fn. 10.
- <sup>32</sup> *Inequality at Work*, *op. cit.*, Chapter 8.
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- <sup>34</sup> U.S. Bureau of the Census, *The Hispanic Population*. Washington, D.C.: U.S. Government Printing Office, May 1997. Available Online: <http://www.census.gov/population/www/popprofile/hisppop.html>
- <sup>35</sup> *NAFTA-Dislocated Workers: A Latino Perspective*, *op. cit.*, p. 3.
- <sup>36</sup> *Inequality at Work*, *op. cit.*, p. 159.
- <sup>37</sup> For an overview of issues and further citations, see Gonzales, Claire, *The Empty Promise: The EEOC and Hispanics*. Washington, D.C.: National Council of La Raza, 1993.
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- <sup>39</sup> "The Multi-City Study of Urban Inequality," *The Russell Sage Foundation News*, Issue 2, 1997.
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- <sup>41</sup> Tienda, Marta, "Latinos and the American Pie: Can Latinos Achieve Economic Parity?" *Hispanic Journal of Behavioral Sciences*, 17(4):403-429, 1995. Tienda called in particular for research on Puerto Rican unemployment. A review of academic literature on Hispanic unemployment produces numerous calls for longitudinal causal research; see, for example, Torres, Rodolfo D. and Adela de la Torre, "Latinos, Class and the U.S. Political Economy," in Melendez, Edwin, Clara Rodriguez, and J. Figueroa, eds., *Hispanics in the Labor Force*. New York NY: Plenum Press, 1991.

# Index of Hispanic Economic Indicators

July 1997

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## Overview

One in ten Americans is of Hispanic origin (10.7%). Census projections show that, in about 10 years, Hispanics will constitute the largest minority group in the U.S. and, by 2035, one in five Americans will be Hispanic.

On several measures related to economic well-being, Hispanics have demonstrated economic stability and even some upward mobility. Latino men are more likely than any other group of men to be working or looking for work and Hispanic women have increased their participation in the workforce over the past decade; in particular, the proportion of Hispanic women in professional and managerial positions, as well as among business owners, is growing. In the past five years, both the number of Hispanic-owned businesses and the total dollars spent by Latinos in the economy have increased significantly. Furthermore, research shows almost two of every five people hired for new jobs in 1996 were Latino and that there is a rapidly growing, and increasingly prosperous, middle class in one of the nation's key states, California.

On the other end of the economic spectrum, a substantial proportion of Latino families face several serious economic challenges. Hispanics have the lowest levels of educational attainment of all Americans. In 1995, Latinos were the only group to experience a 5.1% drop in median income; household income among Hispanics is currently only about two-thirds that of White household income. Hispanics are now the poorest of all major racial/ethnic populations in the U.S. and the largest share of the increase in Hispanic poverty since 1992 has been among married-couple families. Although they are especially likely to grow up in a married-couple family with at least one full-time worker, two in every five Latino children are poor. Another serious concern is that the proportion of Hispanics -- including those who are employed -- who have no health insurance is substantial. This is in part explained by the jobs in which Latinos are especially likely to be concentrated. Hispanic workers, in general, tend to be in low-wage, low-growth jobs and are underrepresented in professional and managerial positions in all sectors of the economy. As a whole, Hispanics are especially likely to spend a sizeable share of their income on rent and are less likely than either Whites or African Americans to be homeowners. Finally, while the typically low socioeconomic status of Latino immigrants affects the overall profile of Hispanics, it does not fully account for these striking disparities, since the majority of Hispanics are not immigrants.

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# Leading Indicators

## Trends that Illustrate the Economic Mobility of Latinos

Recent research highlights the following leading indicators in the economic mobility of Hispanics:

- ❖ **Highest Male Labor Force Participation Rate.** In 1996, 66.5% of the Hispanic population 16 years and over, or 12.8 million persons, were in the civilian labor force, which was comparable to Whites (67.2%), and slightly more than Blacks (64.1%). However, a greater percentage of Hispanic men 16 years and over were working or looking for work than White and Black men in 1996, 79.6% compared to 75.8% and 68.7%, respectively.
- ❖ **Economic Force of Latina Women.** Latinas have traditionally had lower labor force participation rates and lower wages than either White or Black women. But that rate has increased since 1990, especially in the managerial/professional sector. The percentage of Latinas who are classified as managers/professionals increased from 14.7% to 17.5% between 1990 and 1996, according to the U.S. Bureau of Labor Statistics. Furthermore, a greater proportion of Hispanic women are employed in managerial and professional occupations than Hispanic men (12.1%). In addition, data suggest that businesses owned by Hispanic women are one of the fastest-growing sectors in the economy.
- ❖ **Increase in and Strength of Hispanic Businesses.** The number of Hispanic-owned businesses has risen over the past decade. In 1992, the most recent data for which such data are available, 862,605 U.S. firms were owned by Hispanics, an increase of 76.1% since the last U.S. Census Bureau business survey in 1987. These firms generated over \$76.8 billion in gross receipts in 1992, compared to \$32.8 billion in 1987. Comparatively, the total number of U.S. firms increased 26.3%, from 13.7 million to 17.3 million, and total receipts approximately 67.0%, from \$2.0 trillion to \$3.3 trillion, over the same period.
- ❖ **Growing Latino Middle Class.** A recent study by Pepperdine University and AT&T documented a 23.1% increase in the number of U.S.-born Latino middle-class households in Southern California from 1980 to 1990. Furthermore, it found that 34.0% of all foreign-born Latino householders in the region were middle-class. These findings are mirrored in national figures which show an overall increase in the number of Hispanics with household incomes in the "middle class" brackets.
- ❖ **Significant Contributions to the Economy.** The purchasing power of Latinos has increased 65.5% since 1990 to \$350 billion, according to a report by the University of Georgia's Selig Center for Economic Growth. Furthermore, this figure is expected to increase based on the economic strength of the Hispanic population and current population projections.

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# Lagging Indicators

## Trends that Impede the Economic Progress of Latinos

Research and data point to several lagging indicators that help to explain the lack of economic mobility of a significant segment of Latino families and their children:

- ❖ **Low educational attainment, as well as a wide gap between Hispanic and non-Hispanic high school and college completion rates.** Data show that, as a whole, Hispanics have significantly lower levels of education than their non-Hispanic counterparts. In 1995, only 53.4% of Hispanics had graduated from high school, compared to 83.0% of Whites and 73.8% of African Americans. College completion rates also underscore a substantial educational gap between Latinos and non-Latinos; almost one in four (24.0%) Whites has a college degree, compared to fewer than one in ten (9.3%) Latinos and about one in eight African Americans (13.2%). Furthermore, more than two-thirds (67.4%) of poor Hispanic family heads of household do not have a high school diploma, compared to 41.1% of Black, and 43.1% of White, householders, an issue of extreme concern in an economy which increasingly requires greater levels of education and formal training for steady, well-paying employment.
- ❖ **Disparities and declines in median family income since 1990.** Hispanic median family income was \$24,570 in 1995, compared to \$42,646 for White families, and \$25,970 for Black families. These figures represent an increase of 4.9% for Hispanic families from 1990 to 1995, 15.5% for White families, and 21.2% for Black families, over the same period. However, when accounting for inflationary increases in income, median income levels declined for both Hispanic (down 10.1%) and White (down 0.9%) families, but increased slightly for Black families (up 4.0%) between 1990 and 1995.
- ❖ **Rising rates of poverty, especially among children.** Despite their level of work effort and their likelihood of living in married-couple or family households, Hispanics are the only racial or ethnic group in the U.S. who have not benefited from the country's growing economy to the same degree as other Americans. In fact, in terms of poverty levels, Hispanics are economically worse off than they were five years ago during the height of the recession. About one in three Hispanics (30.3%), compared to 29.3% of African Americans and 11.2% of Whites, were poor in 1995. For Latinos, this rate has steadily increased from the early 1980s when the Hispanic poverty rate was 29.9%. Among children, poverty has increased dramatically, even when overall population growth is considered. Since 1980, the number of poor Hispanic children has increased by 133.3% (from 1.7 to 4.1 million), compared to 25.1% for White children (from 7.2 to 9.0 million) and 20.2% for Black children (from 4.0 to 4.8 million). In 1995, two in five Latino and African American children (40.0% and 41.9%, respectively), compared to 16.2% of White children, lived below federal poverty guidelines.

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- ❖ **Economic losses among married-couple Latino families.** Data indicate that Latino married-couple families are losing ground economically compared to their non-Hispanic counterparts. In 1995, the median income for married-couple Hispanic families was \$29,861, compared to \$47,539 for married-couple White families and \$41,307 for married-couple Black families. In addition, it has become increasingly difficult since the beginning of the decade for Hispanic married couple-families with at least one worker to stay out of poverty. In 1995, over one-third of Hispanic (33.2%) and Black (34.1%) families with children under 18 were poor, compared to 12.9% of comparable White families. Data show that poverty is also a serious problem among *working* Hispanics; almost one-third (30.4%) of poor Hispanic families had at least one year-round, full-time worker in 1995, higher than both Black (18.6%) and White (25.3%) families.
  - ❖ **Significant share of Hispanics without health insurance coverage, despite their work effort.** The concentration of Hispanics in low-wage industries often means that they do not receive important employment benefits, such as health insurance. In fact, a notable proportion of Hispanics, especially Hispanics who are poor, lack medical coverage. In 1995, one-third (33.3%) of Hispanics, one-seventh (14.2%) of Whites and over one-fifth (21.0%) of Blacks were not covered by health insurance. Among the poor, two-fifths (40.8%) of Hispanics, one-third (33.3%) of Whites and less than one-quarter of Blacks (23.5%), did not have health insurance in 1995. The high proportion of poor Hispanics without health insurance may be explained, in part, by the overrepresentation of Hispanics among the working poor and, therefore, not eligible for Medicaid.

## Additional Issues

Three other issues are important to consider in the economic well-being of Latinos, as highlighted below:

- ❖ **Stagnant niche in labor market.** Data show that Latino workers, as a group, are overrepresented in low-wage jobs in sectors of the economy that do not offer benefits, are not expected to grow, and/or are declining. According to 1996 Bureau of Labor Statistics data, the majority of male Hispanic workers are concentrated in either precision production, craft, and repair occupations (19.4%), or as operators, fabricators, or laborers (27.7%), while some of the fields projected to experience growth are managerial and professional specialty, and technical, sales, and administrative support occupations, which do not have a representative share of Latinos.
- ❖ **High housing costs and low homeownership rates.** Although the federal affordability standard assumes that households spend about one-third of their income on housing, preliminary 1995 data from the American Housing Survey indicate that one in five (21%) Hispanic households spent *more than half* their income on housing that year. In addition, despite constituting 24% of the poor in the U.S., Hispanics represent only 10-13% of renters in federal housing programs, including public housing. Another housing-related challenge that Hispanics face is that of increasing their share of homeowners; nearly one-half (49.7%) of Hispanic married-couple families

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with children lived in owner-occupied housing in 1993, which was markedly less than the comparable homeownership rates for White (77.8%) and Black families (59.9%).

- ❖ **The overall low economic status of Hispanic immigrants.** Over three-fifths (62.1%) of U.S. Hispanics were native-born according to 1996 data, while less than two-fifths (38.0%) were foreign-born. Among children, the data for that same year indicate that this proportion is greater; 87.0% of the Hispanic population under age 18 were native-born. On average, Latino immigrants tend to have low levels of educational attainment and a socioeconomic profile that slightly depresses the statistical picture of Latinos overall. Despite the effect that the proportion of foreign-born Hispanics has on Latino socioeconomic status, research has shown that U.S.-born Hispanics are still three times more likely than native-born Whites to be poor. According to 1990 Census data, the poverty rate of U.S.-born Mexican Americans was 24.0%, while that of immigrant Mexicans was 28.6%. This compares to 8.7% for Whites.

## Areas for Public Policy Investment

Together with individual effort, successful community-based self-help initiatives, and private-sector job creation, public policy has a role to play in strengthening and improving the economic prospects of Hispanics and their families. Several policy measures hold some promise, including:

- ❖ **Progressive tax reform.** Because Hispanics are especially likely to work, but are overrepresented among low-income workers, changes in tax policy offer some potential for lifting Hispanic income. For example, the Earned Income Tax Credit (EITC) was claimed by 2.7 million working Hispanic households in 1995, and helped both to raise their incomes and reduce Hispanic family poverty by 2.9 percentage points overall. By contrast, the tax bill recently passed by the Congress is inadequate in its support for dedicated work efforts of Hispanics and their families. More than half of the benefits and relief will go to the highest 5% of tax payers; it does virtually nothing to increase available income for low-wage Hispanic and other workers.
- ❖ **Education initiatives.** On the whole, public education has not been effective for Hispanics -- especially for low-income Latinos. A variety of efforts is needed from pre-school to higher education. These include expanding and improving early childhood education; increasing opportunities for adolescents, out-of-school youth, and adult learners; and increasing the proportion of Latino students enrolling in and graduating from college. In particular, support for innovative approaches, like community-based charter schools, is needed to help address both the poor quality and inadequate levels of schooling that adversely affect the job prospects of Latinos.
- ❖ **Homeownership.** Efforts to provide additional housing options for working poor Hispanic families are needed to help them build wealth and assets, and promote economically diverse, stable neighborhoods. Recent demonstration programs by NCLR and other organizations show that, at least in many major housing markets, significant numbers of low-income Latino renters can successfully make the transition to

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homeownership. Successful programs are characterized by affirmative marketing in Hispanic neighborhoods, pre- and post-purchase financial counseling by community-based organizations, and flexible underwriting criteria; these innovative efforts deserve substantial public support.

- ❖ **Federal-level opportunities.** Latinos continue to be severely underrepresented in programs such as Head Start, Job Corps, and Job Training Partnership Act programs, which are meant to integrate low-income families into the economic mainstream. For example, in 1993, Latinos constituted slightly more than one in six (15%) non-migrant, Head Start participants on the U.S. mainland, while almost two-fifths (36%) of enrollees were Black, and one-third (33%) were White. Furthermore, in 1994, Latinos were slightly more than one in eight (13.3%) participants of title II-A adult JTPA employment and training programs, while White participants constituted half (50.8%) and Black participants less than one-third (30.6%) of all participants. In addition, as a proportion of federal employees, Hispanics are underrepresented at all levels of federal employment. Hispanics constitute 6.0% of federal employees, although they were more than 9.5% of the civilian labor force in 1996. Moreover, data suggest that Hispanics are even more severely underrepresented at the state and local levels than at the federal level. As a result, one traditional "career ladder" for minorities to move into the middle class has not been accessible to Latinos.
- ❖ **Civil rights protections.** While there are measures which can be advanced to improve the economic status of the nation's Latinos, there are pending policy proposals which threaten to reduce the earnings potential of and exacerbate poverty among Hispanics. For example, Congress is currently considering the elimination of affirmative action programs which assist disadvantaged Latinos in gaining access to education and employment. In addition, last year's immigration law is likely to create further employment discrimination against Latinos at the same time that it weakens civil rights protections. Such policies lead the nation in the wrong direction and threaten to erode the economic and social gains that Hispanics have made.

## Conclusion

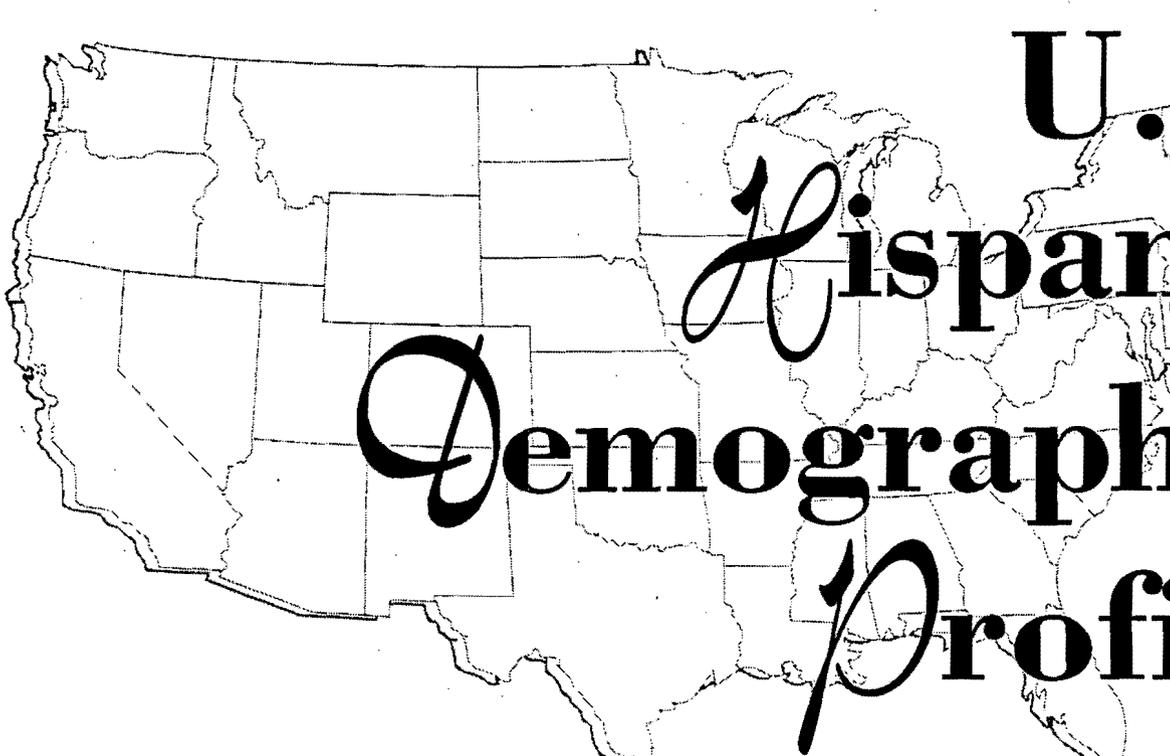
Demographic trends demonstrate that, in the next century, Latinos will constitute a large and growing proportion of the country's population, workforce, and economy. The future economic prosperity of the United States, therefore, increasingly depends on maximizing the contributions of Hispanic workers, and promoting the well-being of their families and children.

This prosperity, however, is threatened by the large and growing proportion of Latino families and children who live and grow up in poverty. Moreover, the declining income levels experienced by Latinos who "work hard and play by the rules" threaten our fundamental values and sense of fair play. As we enter the new millennium, all Americans need to understand the choices that confront us, and commit to finding solutions.

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- ❖ As a nation, we can and should choose to make improvements in the economic status of all Americans, including low-wage Hispanic workers, our major public policy priority.
  - ❖ As a community, Latinos can and should continue to preserve and promote the core values — strong work ethic, entrepreneurial spirit, and commitment to family — which provide the community with the fortitude, courage, and ingenuity to meet and overcome serious challenges.
  - ❖ As an organization, the National Council of La Raza can and will continue aggressively to support its network of more than 215 community-based organizations to promote economic opportunity and provide essential services; and will continue to hold policy makers accountable for assuring equality of opportunity for all Americans.

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**U.S.**  
*Hispanic*  
**Demographic**  
*Profile*

# **U.S. HISPANIC DEMOGRAPHIC PROFILE: DEVELOPMENTS, IMPLICATIONS, AND CHALLENGES**

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**April 1998**

**Jonathan Njus, Policy Analyst, provided data research assistance and prepared graphs and  
Cristina Bryan, Editor, edited the document.**

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## I. Overview

An assessment of the social and economic status of the U.S. Hispanic population suggests that, as the 20<sup>th</sup> century comes to a close, Latinos are at a critical juncture.<sup>1</sup> There now exist at least 25 to 30 years of solid data, and a large and growing body of research, to help inform and shape strategies to address continuing – and in some cases, widening – socioeconomic gaps between Latinos and the rest of American society.

Overall, the Hispanic population was estimated to total 29.2 million in 1997, which constituted 10.9% of the United States population. The majority of Hispanics are native-born, high school graduates, and employed. In addition, Latinos represent a growing proportion of high school and college graduates, as well as business owners. Most Latino households are formed by families, and they continue to make gains in areas which will lead to greater economic stability; however, wide disparities exist in educational attainment between Latinos and non-Latinos, and low median family income levels, as well as high poverty among Hispanic families and children, persist. Troublesome gaps exist in other key areas as well, including health status and housing.

Based on data from the U.S. Census Bureau, the Department of Labor's Bureau of Labor Statistics, and several other sources, the following discussion outlines several notable trends in the social and economic outlook of Latinos, discusses some implications of these data, and presents four challenges that the Hispanic community continues to confront in its pursuit of social stability and economic mobility.

## II. Noteworthy Developments and Trends

Several trends have characterized the Hispanic population's sociodemographic status since the beginning of the decade. These developments have implications for Latino economic well-being into the next century and demonstrate that Hispanics will play a key role in shaping the nation's future.

1. **Significant population growth, from both high fertility levels and immigration.** The Hispanic population in the U.S. continues to increase, both in actual numbers and as a proportion of the total U.S. and minority populations. Projections show that, in less than a decade, Latinos will become the nation's largest "minority group." While immigration is, without dispute, a critical factor in explaining the increased number of Latinos in the U.S., Census data also show that natural increase accounts for fully half of U.S. Hispanic population growth. Furthermore, although Hispanics are still likely to live in a handful of states, the population is expanding to "non-traditional" areas of the country.

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<sup>1</sup> The term "Hispanic" is used by the U.S. Census Bureau to identify Americans of Mexican American, Puerto Rican, Cuban, Central and South American, and Spanish descent. The terms Hispanic and Latino will be use interchangeably throughout this report. Hispanics may be of any race, and thus, Whites and Blacks may also be Hispanic.

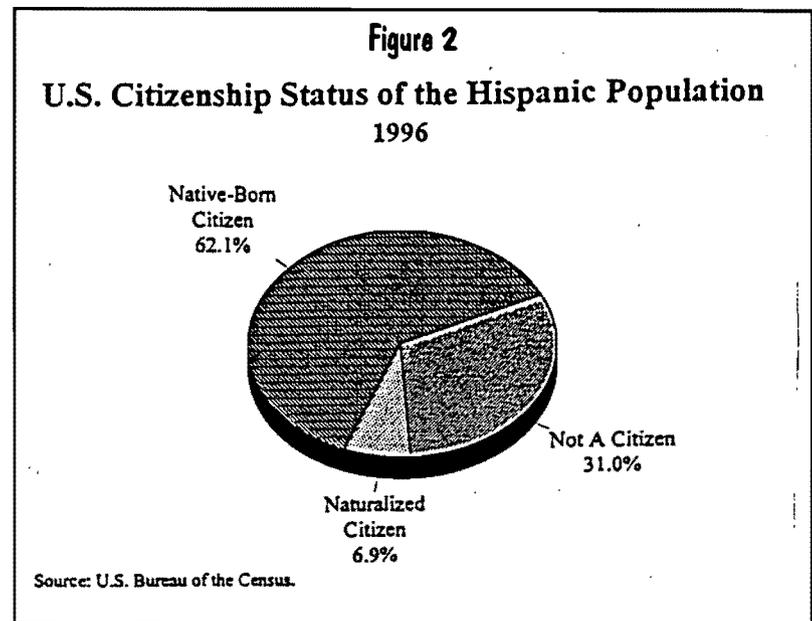
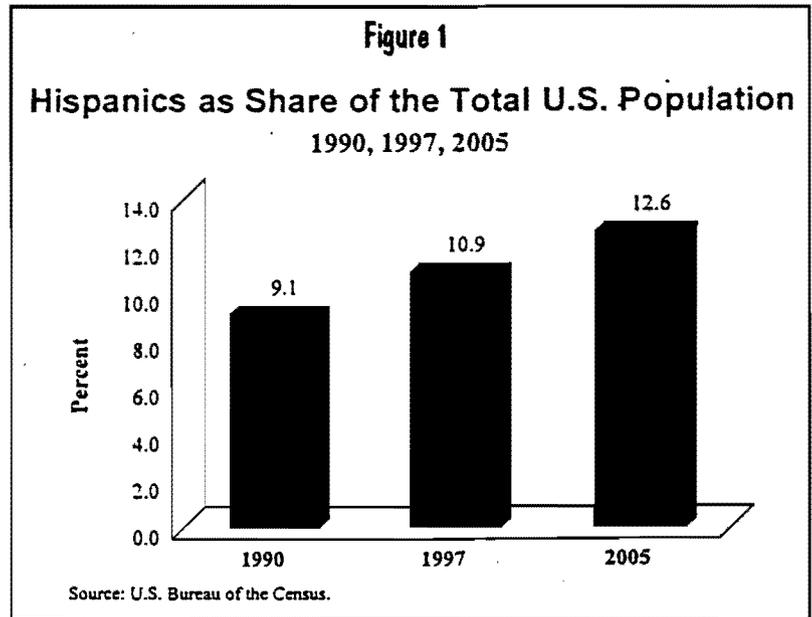
- ❖ The number of Hispanics increased 29.6% from 1990 to 1997, while the White and Black populations grew by 5.8% and 10.9%, respectively, over the same period.

- ❖ The Hispanic population is projected to increase 23.3% by 2005, to reach a level of 36.1 million, while the non-Hispanic Black population is expected to grow 9.9%, to 35.5 million, over the same period.

- ❖ From 1990 to 1996, Hispanic women between the ages of 15 and 44 had an average of 106.3 births per 1,000 women, compared to 79.6 births for Black women and 65.6 births for White women. The immigration rate for Hispanics was 15.1 persons for every 1,000 over that same period, compared to 2.2 persons and 2.8 persons for the White and Black populations, respectively.

- ❖ Approximately three-quarters of the U.S. Latino population reside in California, Texas, Florida, New York, and Illinois. Over the last decade, however, significant increases in the Hispanic population have occurred in the Midwest and other "non-traditional" Hispanic areas; for example, in 2005, the Hispanic population is projected to reach 10% of the total state population of Connecticut.

- ❖ The vast majority of Hispanics are born in the U.S., but the proportion of the Latino population that is foreign-born is increasing. In 1990, 64.2% of Hispanics were native-born (including island-born Puerto Ricans), 9.4% were naturalized citizens, and 26.4% were not citizens. As of 1996, 62.1% of Latinos were native-born, 6.9% were naturalized, and 31.0% were not citizens.

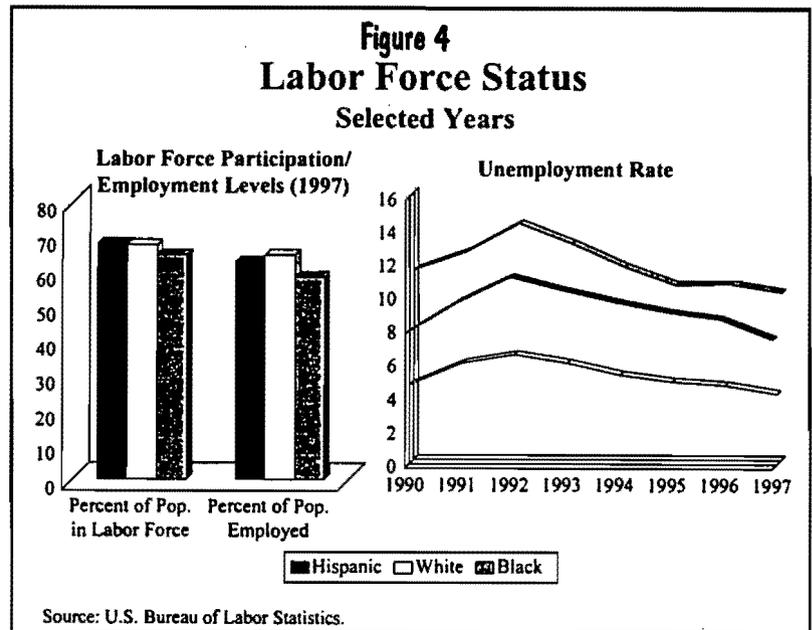
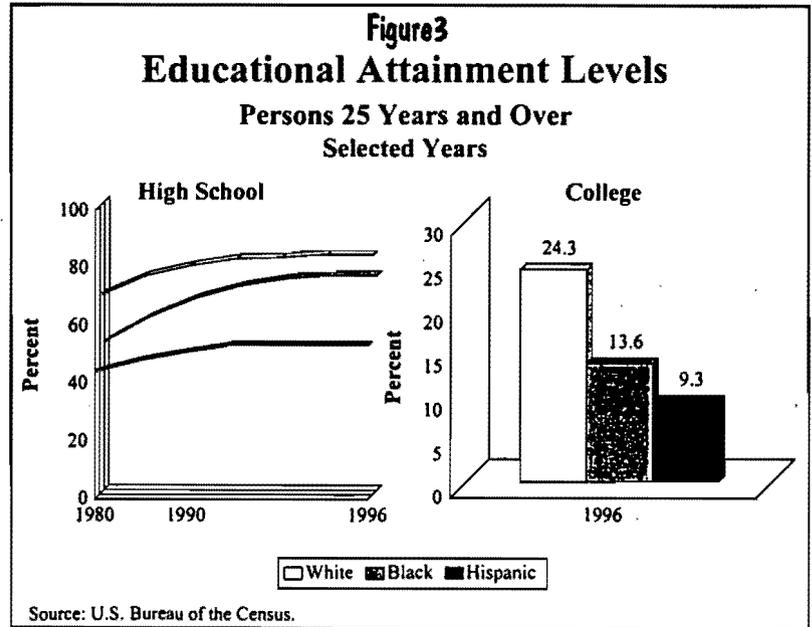


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2. **Youthfulness and a high proportion of children under 18.** Hispanics are likely to play a pivotal role in the nation's future because a large proportion of the current Latino population consists of youth and young adults – a significant segment of workers that will be relied upon to ensure the nation's continued economic prosperity.
- ❖ The median age for Hispanics was estimated at 26.5 years in 1997, while the median age estimates for Whites and Blacks were 36.0 years and 29.7 years, respectively.
  - ❖ More than one-third (35.1%) of Hispanics were estimated to be under age 18 in 1997, compared to one-quarter (24.8%) of Whites and just under one-third (31.7%) of Blacks.
3. **Changes in household structure, in part reflecting the shifts experienced by all racial and ethnic groups and the increase in unmarried births to teenagers.** Over the past decade, the proportion of Latino single-parent families has steadily increased, while Hispanic teenagers continue to experience significantly high fertility rates. Such outcomes are especially likely to lead to social instability and economic difficulties for Latino families overall.
- ❖ In 1996, slightly more than one-fourth (25.5%) of Hispanic families were female-headed, up from 21.8% of all Latino families in 1980. (In 1996, 14.1% of White families and 46.8% of Black families were headed by women alone.)
  - ❖ While only a small proportion (6.9%) of Latino families were headed by single fathers in 1996, the number of such families has increased by 65.2% since 1986, when 6.3% of all families were headed by men alone.
  - ❖ In 1995, Hispanic teenagers (ages 15-19) had a higher birthrate than African American or White adolescents (106.7 per 1,000 women, compared to 96.1 and 50.1, respectively), a figure which has steadily increased since the 1980s. Moreover, the birthrate for *unmarried* Hispanic, African American, and White young women ages 15-19 that same year was 78.7, 92.8, and 35.5 per 1,000, respectively.
4. **Insufficient gains in educational attainment.** Hispanic progress in educational attainment has been slow and uneven, relative to the non-Hispanic population. In particular, while the number of Latino high school and college graduates has increased over the past decade, especially among young adult Hispanics, the proportion of the total Hispanic population that has graduated from either high school or college is far short of national averages.
- ❖ In 1995, 49.0% of Hispanic four-year-old-children were enrolled in preprimary education programs, compared to 68.2% of Black, and 60.8% of White four-year-old-children.
  - ❖ The number of Latinos 25 and over who graduated from high school increased 25.6% between 1990 and 1996.
  - ❖ About three in five (59.9%) Hispanics in the 18-34 age bracket had graduated from high school in 1996, compared to four in five Whites (83.6%) and Blacks (79.0%).

- ❖ Although the number of Latino college graduates had grown by 21.5% since 1990, by 1996 only 9.3% of Latinos had graduated from college; by contrast, 24.3% of Whites and 13.6% of Blacks had completed college that year.

5. **Strong labor force attachment and increasing influence of women workers.** One of the most positive factors in the economic status of Latinos is their consistently high propensity to be working or looking for work. In fact, Hispanic men continue to have the highest labor force participation rates of any group of male workers in the U.S. – a proportion which has remained consistently high since the 1980s. As a result, Latinos constitute a large proportion of today’s labor market and are especially likely to be hired for a new job; projections suggest they will be an increasingly significant segment of the future U.S. work force. In addition, although Hispanic women are less likely than other women to be in the paid labor force, they have increased their participation among workers, and have outpaced Hispanic men in certain high-paying occupations.

- ❖ Currently, 80.1% of Hispanic men 16 years of age and over are in the labor force, compared to 75.8% of White men and 68.3% of Black men.
- ❖ Two out of every five workers hired for new jobs in 1996 were Latino.
- ❖ Latinos comprised over 10% of America’s workforce in 1997 and are expected to constitute a larger share by 2005. In states like California and New York, Hispanics were 26.8% and 11.7% of the labor force in 1996, respectively.



- ❖ The proportion of Hispanic women workers who hold managerial/professional jobs increased from 15% to 18% between 1990 and 1996, which is larger than the share of Latino men in these types of occupations. Overall, Latinas have been increasingly likely to join the paid labor force since 1990.

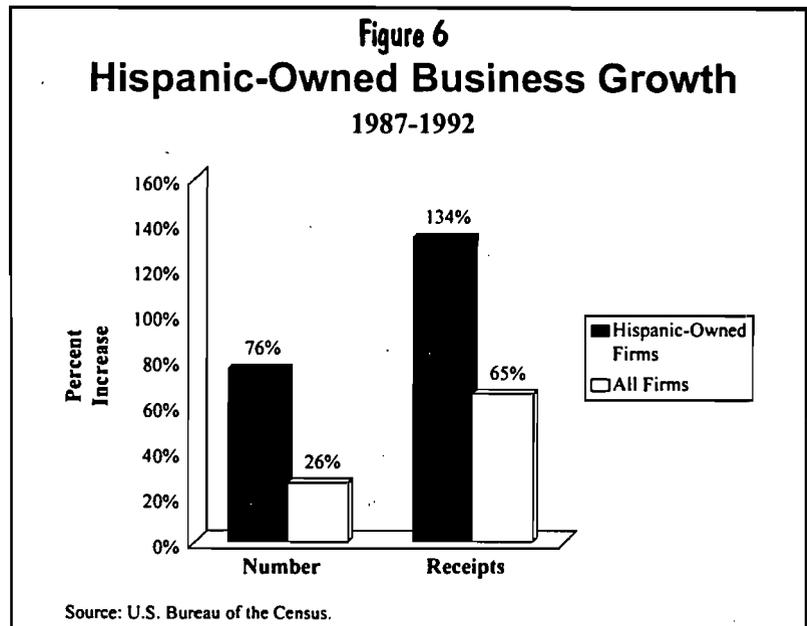
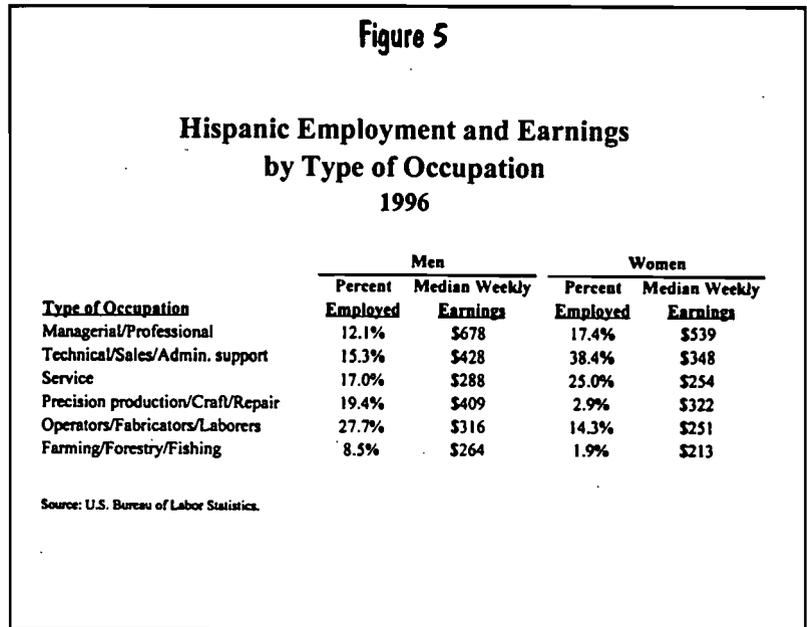
**6. Increase in Hispanic-owned businesses and overall economic power.** There have been notable signs of Latino growth and economic power, especially since the beginning of this decade.

- ❖ The number of Hispanic-owned businesses in the country increased 76% between 1987 and 1992, and the receipts generated by these businesses grew 134% more over this time.

- ❖ Hispanic purchasing power stood at \$350 billion in 1997, a 66% rise from 1990.

- ❖ From 1980 to 1990, the number of Latino middle-class families grew by 23% to reach 190,089 families in California, where over one-third of Latinos reside.

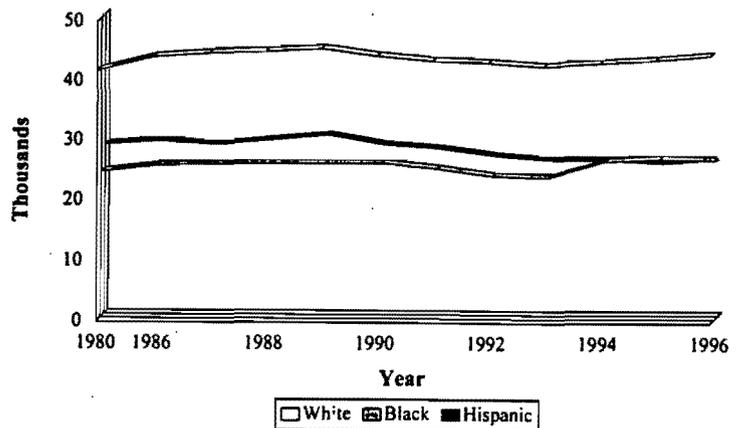
**7. Overall deterioration in economic well-being and an increase in poverty among married couples and children.** Despite the economic mo-



bility of an important segment of the Latino community, and the nation's unprecedented recent economic expansion, a significant share of Hispanics has not reaped the benefits of its labor – even when its members work and live in two-parent households.

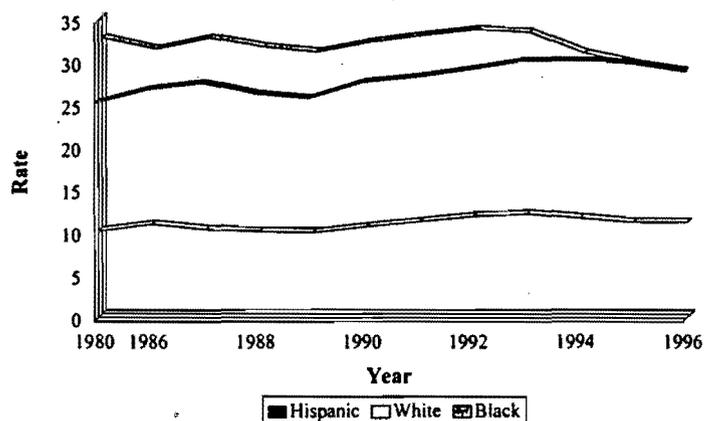
- ❖ Hispanic median family income was \$26,179 in 1996, compared to \$44,756 for White families and \$26,522 for Black families. After accounting for inflation, median income levels declined by 6.9% for Hispanic families from 1990 to 1996, and rose by 1.0% for White and by 3.1% for Black families.
- ❖ In 1996, Latinos became the poorest group of Americans in the nation; more than one-quarter of both Hispanic and Black families lived in poverty that year (26.4% and 26.1%, respectively), while the poverty rate for White families was 8.6%. At the start of the decade, 25.0% of Hispanic families were poor, compared to 29.3% of Black families and 8.1% of White families.
- ❖ Poverty among working Hispanic families has persisted, despite the high labor force participation rate of Latino men and the increased efforts of Hispanic women; one-fifth (20.9%) of Hispanic families with at least one worker were poor in 1996, an increase over 18.2% in 1990. In comparison 17.7% of comparable Black families and 6.6% of comparable White families were poor in 1996.

**Figure 7**  
**Trends In Real Median Family Income**  
1980-1996



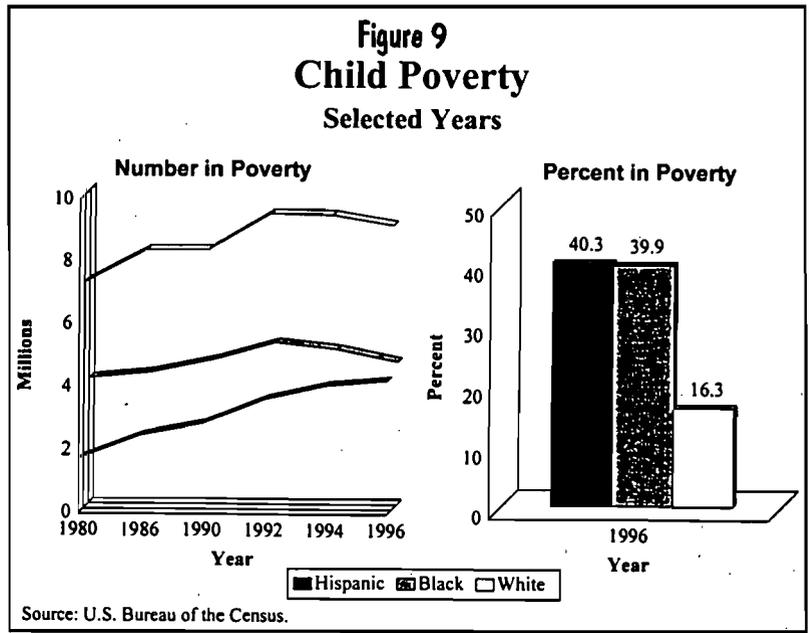
Source: U.S. Bureau of the Census.

**Figure 8**  
**Trends In Overall Poverty Rate**  
1980-1996

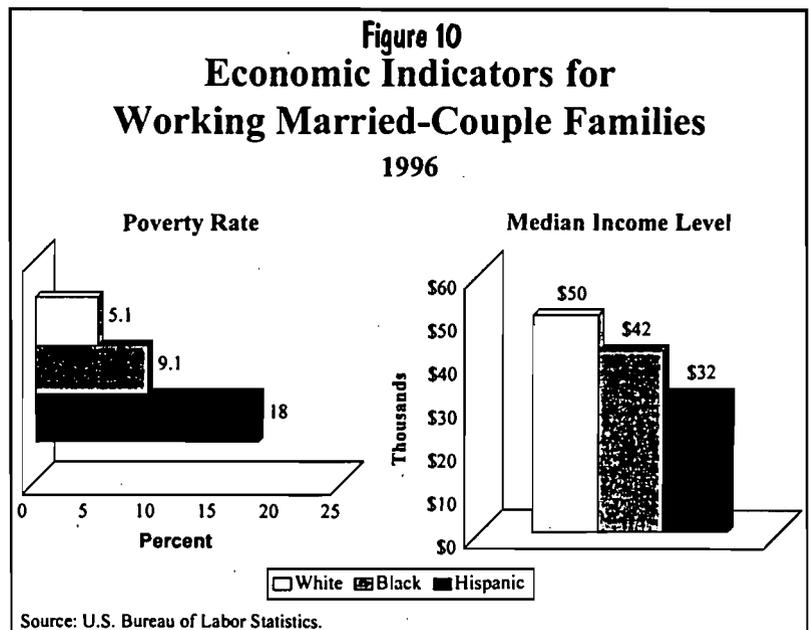


Source: U.S. Bureau of the Census.

- ❖ In 1996, two in five (40.3%) Hispanic children were poor, compared to 39.9% of Black children and 16.3% of White children. This poverty rate represents a 47.9% increase in the number of Hispanic poor children since 1990; over this time period, 1.4 million more Hispanic children became poor. Among Latino subgroups, almost half of Puerto Rican children (49.9%) lived below the poverty level in 1996.



- ❖ In 1996 nearly one-third (29.4%) of Hispanic children living in married-couple families (those presumably able to fare better in the economy) were poor, compared to one in ten White children (9.2%), and more than one in eight (13.9%) Black children in such families.



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### III. Implications

Analysis of these data and trends suggests several implications, for the nation, for Hispanic socioeconomic status, and for economic equity overall. These include:

- ◆ **Increasingly significant Latino share of students and workers, both nationally and within key states.** Based on population growth to date and Census Bureau projections for the beginning of the next century, the nation's social and economic future is directly tied to the outcomes of Latino students and workers. Hispanic children and youth are already a sizable portion of the student population, especially in states like California and New York. Therefore, the public school system's responsibility to these students is an extension of its obligation to these states and their residents, especially since the nation will be dependent on these young people to keep it prosperous over the next century. Similarly, because Hispanic workers are actively engaged in all levels of the workforce and in all sectors of the economy, and because they are a young population who have their prime working years ahead of them, their continued productivity is critical for the nation's growth and stability.
- ◆ **Potential for persistently serious poverty, given changes in family structure, high, unmarried teenage birth rates, and low education levels.** Latinos have the highest poverty rate of all Americans, despite their work ethic and tendency to reside in family households, and a number of factors threaten to deepen Latino poverty further. Although Latino poverty is high among two-parent households, following national trends in family formation, one-quarter of Hispanic families are now headed by women alone. In part because Latinas, as a group, have low education levels, limited work experience, and earn less than their male counterparts, these families are most prone to poverty. Furthermore, the implementation of welfare reform without sufficient job training and the scarcity of high-quality, affordable child care options suggest that the economic prospects of many of these women are discouraging. In addition, an increasingly important determinant of Hispanic poverty – especially Latino child poverty – is the trend toward unmarried teenage births. Teenage pregnancy has been a problem of growing importance in the Latino community because of its implications for economic status. Even though teenage Latinas are more likely than other young women to marry, children born to young parents have a high probability of living in poverty since young women are especially likely not to complete high school. Because of low skills, lack of work experience, and limited job opportunities, both they and young fathers are likely to be financially (as well as emotionally) unprepared to be parents. In this sense, increased education levels are critical to increased Hispanic economic mobility; in fact, education has been shown to be the most important indicator of Latino economic prospects. A 1993 NCLR analysis suggests that if Hispanic educational levels were equal to those of Whites, Hispanic poverty would be reduced by 30%, yet relative to the youthfulness of the population and its growth, Hispanic educational attainment levels are severely lagging.
- ◆ **Increasing polarization between higher- and lower-income Latino earners and a declining share of Hispanic middle-income earners.** While it is true that a larger proportion of the Latino community is poor now than in 1990, a significant share of

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Latinos has enjoyed some measure of economic success. This paradox reflects both the stagnation of wages among low-income Hispanic workers, and growing prosperity for upper-income Hispanics. Although there is insufficient research concerning many aspects of this gap, anecdotal evidence suggests that economic polarization within the Latino community has resulted in an increasing “disconnect” between poor Latinos and those who have moved into middle- and upper-income brackets.

- ◆ **A widening gap between the White concentration in the upper-income groups and a disproportionate Latino concentration in lower-income groups.** Based on the economic profile of Latinos, their concentration in low-wage, low-growth jobs; their poor earnings; and their high poverty, there are serious concerns regarding both stagnating and eroding wages (and earnings), particularly in relation to the circumstances of White workers, who are overrepresented in high-wage jobs and high-growth industries. In fact, these gaps – and the resulting unequal income distribution trends – will probably increase without major policy interventions. Moreover, this phenomenon has been magnified in the context of the nation’s economic prosperity because Whites disproportionately are benefiting from the surging stock market and lower tax rates on capital gains, while Latinos, as a group, tend not to invest in stocks.

## IV. Continuing Challenges

Based on data trends and several recent policy developments, there are many continuing challenges to improving the sociodemographic profile of Latinos; specifically:

- ◆ **Barriers to increased educational attainment, especially at the higher education level.** Recent college acceptance data — which show dismal outcomes for Latino applicants following the prohibition of affirmative action at California and Texas public institutions of higher education — suggest a possible trend that poses a new challenge to increasing the proportion of Latino college graduates. Furthermore, the potential spread of such policies, coupled with attacks on bilingual education, threaten to reverse the modest gains in Hispanic educational attainment made since 1990.
- ◆ **Continued occupational segmentation.** In part because of skill level and employment discrimination, Latinos continue to be overrepresented in low-wage jobs that offer little chance of economic mobility. The proportion of Hispanic workers in professional and managerial occupations, as well as in those jobs that hold the most promise for growth, must increase in order for Latino earnings, income, and economic prospects to improve.
- ◆ **Limited experience with traditional mechanisms used for the generation of wealth and accumulation of assets.** The increase over the past decade in the number of Hispanic-owned businesses is an important step toward increasing wealth and financial assets in the Latino community. Yet, other routes to economic prosperity must also be tapped; for example, Latinos are more likely to rent, and less likely to own homes, than Whites, a concern given that homeownership is one of the principal ways that Americans acquire wealth. Similarly, participation in the stock market, as well as in pension plans

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and other retirement investments, will be essential for Latinos to actualize their economic potential.

- ◆ **Persistent ethnic/racial employment and housing discrimination.** An increasing body of research has highlighted the significance – and persistence – of discrimination against Latinos and African Americans in the labor and housing markets. In particular, “paired testing” studies demonstrate that Hispanic job applicants encounter discrimination in more than 20% of their encounters with employers, while Latino homeseekers encounter discrimination in about 50% of their encounters with real estate agents, landlords, and lending institutions. Overall, these studies demonstrate that the incidence of discrimination against Hispanics in the labor and housing markets studied is of the same order of magnitude as that experienced by African Americans. A 1993 NCLR analysis showed that eliminating the portion of the Hispanic-Anglo wage gap attributable to discrimination would reduce Hispanic poverty by about 20%. Similarly, elimination of housing quality and cost differences attributable to discrimination, according to the same analysis, would provide sufficient disposable income to move nearly 20% of poor Latino families above the poverty rate. Increases in Hispanic homeownership rates would, in addition, promote concomitant increases in the accumulation of wealth and assets in the Latino community.
- ◆ **The tendency to use immigration to rationalize low Latino socioeconomic status.** Although over two-thirds of Hispanics (62.1% were native-born and 6.9% were naturalized citizens) were U.S. citizens in 1996, and four in five Latino children are native-born (84.3%), there has been a growing tendency by policy-makers and the public to attribute the social and economic outcomes of Hispanics to the relatively lower socioeconomic status of Latino immigrants. However, even when effects of immigration are held constant, there continue to be gaps in both education and poverty levels between U.S.-born Mexicans (the largest Latino subgroup) and Whites. Specifically:
  - ❖ Only slightly more than half of native-born Hispanics 25 years and older (55.9%) have attained a high school education level, while the same is true for only one-third (33.7%) of comparable foreign-born Hispanics.
  - ❖ Higher education data show that little more than one in nine native-born Hispanics (11.5%) have college diplomas, compared to fewer than one in fourteen (7.4%) foreign-born Hispanics 25 or older.
  - ❖ While education does tend to be higher among U.S.-born Latinos, third-generation Mexican Americans have not attained educational levels comparable to those of non-Hispanic White natives. Moreover, when the Mexican population is disaggregated by birth cohort, data show that both male and female third-generation Mexican Americans have *lower* education levels than those in the second generation; in other words, educational attainment is actually decreasing in those generations.
  - ❖ With respect to poverty, the latest available data from the 1990 Census suggest that U.S.-born Mexicans have only a slightly lower poverty rate than their foreign-born counterparts (24.0% and 28.6%, respectively), while both foreign and native-born

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Cubans have a remarkably similar rate (14.5% and 14.3%, respectively). Compared to native-born Whites, who in 1990 had a poverty rate of 8.0%, U.S.-born Mexicans are three times more likely to be poor. Therefore, even when foreign-born Mexicans are "removed" from the data to allow for native-born-to-native-born comparisons, a significant difference is still apparent between U.S-born Mexican and White poverty rates.

Moreover, it can be argued persuasively that in many respects the presence of immigrants in the Latino community, with their strong work ethic, family unity, and espousal of core American values, strengthen Latino families overall. For example:

- ❖ A 1991 Children's Defense Fund report on child poverty noted that "male Latino immigrants are more likely to be working or seeking work than male Latinos born in the U.S.," suggesting that some portion of the historically high Hispanic labor force participation rate is attributable to the presence of immigrants.
- ❖ Data on homeownership – a key indicator of economic stability – show that more than half (57.1%) of Hispanic foreign-born householders were homeowners in 1996, a proportion that approaches the national homeownership rate of 65.4%. By comparison, 48.1% of native-born Hispanics are homeowners.

The continued high growth of the Hispanic population will remain an important factor in the overall demographic picture of the nation. In this regard, the gains made by Hispanics in recent years in educational attainment, labor force participation, and business ownership, relative to their economic standing in the 1980s, bode well for the economic future of the nation. Yet, relative to their White and Black counterparts, high school and college graduation rates, family income, and homeownership rates are disproportionately low, while poverty rates and the number of Hispanics without health insurance are disproportionately high. As the U.S. approaches a new century, attention to these critical areas is urgently needed in order for Hispanics to succeed as students, workers, business people, and leaders.

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## A Snapshot of Puerto Rico

Data for the U.S. Hispanic population presented above do not include the island of Puerto Rico. Below is a brief summary of key social and economic indicators for Puerto Rico island residents. Unlike in the mainland U.S., where socioeconomic data on Hispanics are updated annually through the Current Population Survey, such data on Puerto Rico are available only through the decennial Census; therefore, with the exception of the population data, which are revised yearly, the following data are from the 1990 Census.

### Selected Social and Economic Characteristics

- ◆ **Population.** In 1996, the population of Puerto Rico was 3,783,000, an increase of 7.4% since 1990.
- ◆ **Educational Attainment.** In 1990, half of island Puerto Ricans 25 years old and over (50%) had high school diplomas, a rate which is slightly lower than that of Hispanics in the U.S. (53%) and of mainland Puerto Ricans (60%). By contrast, Puerto Rico had a higher proportion of college graduates (14%) relative to Latinos or Puerto Ricans on the mainland (9% and 11%, respectively).
- ◆ **Labor Force Status.** About three in five Puerto Rican men on the island were working or looking for work in 1990 (58%), a proportion significantly lower than that of Latino or Puerto Rican men on the U.S. mainland (81% and 72%, respectively). Fewer than two in five Puerto Rican women on the island were in the paid labor force in 1990 (37%), compared to half of Puerto Rican women (50%) and slightly more than half of Latina women (53%) on the mainland.
- ◆ **Unemployment.** In 1990, one in five workers was unemployed (20%); the most recent data show that the unemployment rate is roughly 14%, up from 12% in 1996.
- ◆ **Income.** The median household income in 1990 was \$8,895, significantly lower than that of mainland Latinos (\$22,860) or of mainland Puerto Ricans (\$21,056).
- ◆ **Poverty.** Poverty is more severe in Puerto Rico than among Latinos on the mainland U.S. In 1990, almost three in five persons in Puerto Rico were poor (57%), compared to only somewhat more than one in four U.S. Hispanics (28.1%). Comparatively, almost two in five (39%) Puerto Ricans on the mainland were poor. Puerto Rican children, both in Puerto Rico and on the U.S. mainland, were especially affected by poverty; two in three (67%) were poor in Puerto Rico, while more than half (53%) lived below the poverty level in the U.S. Two in five (40%) Hispanic children on the mainland are poor.

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# Latinos and Economic Development in California

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Enrique Ramirez, Ph.D.  
Refugio I. Rochin, Ph.D.*

*Prepared at the request of Senator Richard Polanco  
Senate Majority Leader and  
Chair of the Latino Legislative Caucus*

JUNE 1999

CRB-99-008