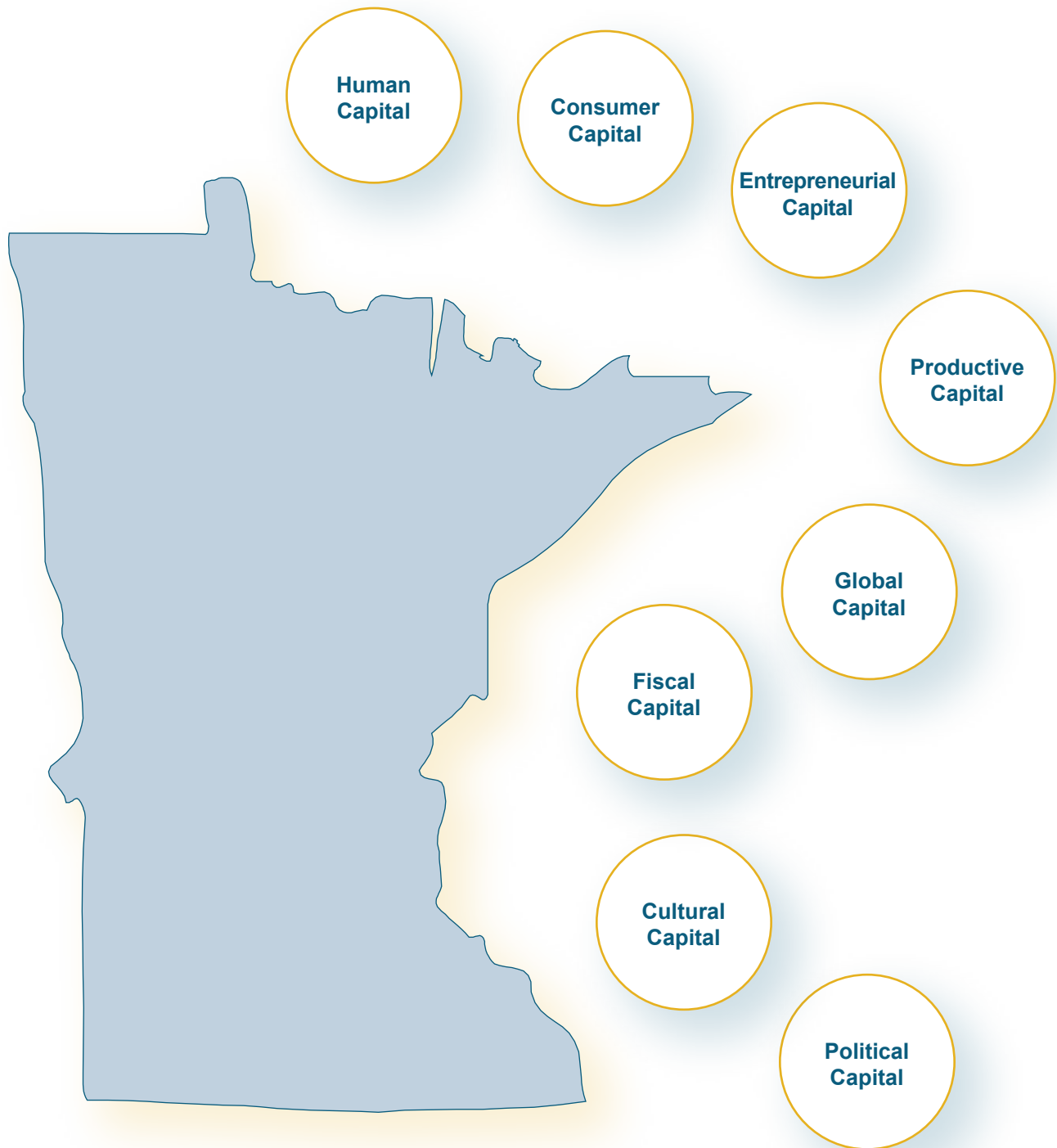


Ethnic Capital and Minnesota's Future

Mexican Americans in Minnesota



Minnesota 2030

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Executive Summary

Ethnic Capital and Minnesota's Future *Mexican Americans in Minnesota*

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This report documents the economic contributions of Mexican Americans in Minnesota. It is time to move away from the flawed immigration debate and failed immigration policy nationally and locally towards a forward looking vision to make Minnesota a Global Competitor in 2030. This vision can be realized through the dynamic contributions of ethnic capital in Minnesota.

Mexican Americans have been in Minnesota since the 19th Century. They have contributed to the Minnesotan economy as Consumer Capital, Human Capital, Productive Capital, Global Capital, Fiscal Capital, Political Capital and Cultural Capital.

- Mexican American consumer power in Minnesota is close to 1 billion dollars - greater than the GDP of Liberia.
- The number of Mexican American firms is growing faster than the state overall rate. Firms with employees grew almost 200 percent during the period 1997-2002. One can see the evidence of this entrepreneurial activity on Lake Street and in District Del Sol
- Mexican American workers provide a critical workforce to businesses in rural Minnesota and the metro area. Latinos will be a significant segment of the future workforce of Minnesota by 2030 with their prime workforce growing over 100 percent between 2005-2030.
- Mexico is among the top ten markets for Minnesota's exports and trade is an important engine for economic growth in small towns such as Austin, Minnesota.
- Mexican Americans paid an estimated 283 million dollars in personal taxes in Minnesota at the federal and state level. Latinos in the prime tax base of Minnesota will grow over 300 percent during the period 2005-2030.
- Mexican American cultural capital has and will continue to enrich Minnesota and help tap the lucrative cultural heritage tourism market

nationally.

- Mexican American Political Capital is reflected in the 73,000 people of voting age. 45 percent of the registered voters voted in November 2004. We are witnessing an increase in the political participation of Mexican Americans nationally and locally.
- Investing in the Mexican American community in Minnesota has tremendous potential for Minnesota's future global competitiveness.
- The multidimensional contributions of Mexican Americans have not been duly acknowledged in Minnesota nor has Minnesota invested adequately in these important strategic assets of the state.
- According to the American Community Survey 2006, 66 percent of people of Mexican origin in Minnesota are citizens.
- According to the American Community Survey 2006, 34 percent of people of Mexican origin in Minnesota are non citizens. These include people with legal status as well as the undocumented workers.
- Policymakers have focused attention on the undocumented workers and have advanced many initiatives aimed at this group of workers in Minnesota. Policy makers should be cautioned about advocating policy measures without proper planning in place to address the consequences of their policy proposals.

Policy makers need to explore 'What if?' scenarios and their impact on the Minnesotan economy. For example if Minnesota were to lose a significant number of workers in critical industries there would be a massive shock to the local economy. Do we have a contingency plan in Minnesota in the case of a labor shock that could arise if immigrant workers are deported or decide to leave? Below are some policy scenarios and results from an econometric model used to simulate economic impacts of changes in the local economy.

Policy Simulations

Mexican American Consumer Capital and Minnesota

What if Mexican American consumption goes down by 500 million dollars in Minnesota?

Mexican American consumer power is 944 million dollars. Even though this is approximately 1 percent of the total buying power in Minnesota it still has a significant impact. For example, suppose sales go down in the Minnesotan economy by 500 million because the community stops spending as much. If we allocate the drop in sales to various sectors of the economy such as grocery and department stores the model predicts that there will be a potential job loss of over 5,000 and further earning loss in the state of over 173 million dollars. From this policy simulation we can see that the Mexican American consumer power in the Minnesotan economy is a significant driver of the economy.

What is the value to the state for 5000 jobs?

If we take the Legislative Auditors estimate of the average cost per job generated by the JOBZ program as an estimate of the state's value of a job as a midpoint value of \$15,000 per job created – then this comes up to an impact of 75 million dollars.

Mexican American Entrepreneurial Capital and Minnesota

What if Mexican American Firms increase sales by 30 million dollars?

In the EMSI Model (Policy Simulation 2) sales was increased by 30 million distributed in the following sectors: construction, professional services, restaurants, and communication. The model predicts that this will create an additional 700 jobs and result in an earnings increase in the state by over 21 million dollars.

What is the value of 3,123 existing jobs created by Mexican American firms in Minnesota? \$46 million

Mexican American Productive Capital and Minnesota

What is the possible impact of Mexican American workers on the Minnesotan economy?

In the EMSI Model we assume 80,000 jobs (about the number of Mexican American workers in Minnesota) are lost in the economy. We will allocate these job losses to the various industry areas where the workers are found and then simulate the impacts.

The EMSI model predicts that this job loss will cause an additional 176,000 job losses and drop earnings in the state by over 6 billion dollars. There will also be a loss in sales with a sales multiplier of 1.96, meaning that one dollar in sales lost results in an additional .96 cents of sales loss in the region. There will be further impacts on other industries such as full service restaurants, grocery stores, supermarkets and janitorial services.

What is the value to the state for the loss of 256,000 jobs? \$3.8 billion

What if the meat packing and poultry industry in Minnesota lost 2,490 jobs (number held by non citizens according to ACS 2006)?

The EMSI model (Appendix Policy Simulation 4) predicts that there will be a further loss of over 16,000 jobs and a loss of over 400 million dollars in earnings in Minnesota.

What is the value to the state for the loss of 18,490 jobs? \$277 million

Mexican American Global Capital and Minnesota

What if agricultural exports to Mexico increased by 50 million dollars?

The EMSI model predicts that there will be a further gain of over 1500 jobs and a gain of over 28 million dollars in earnings in Minnesota

What is the value of 1500 jobs created to the State of Minnesota? \$22 million

Mexican American Cultural Capital and Minnesota

What is the impact of an increase of \$30 million into the hospitality/tourism industry as a result of cultural tourism in Minnesota?

The EMSI model (Appendix Policy Simulation 8) predicts that there will be a further gain of over 800 jobs and a gain of over 23 million dollars in earnings in Minnesota.

Mexican American Fiscal Capital and Minnesota

What are estimated tax payments of Mexican Americans at the County or City Level?

In the appendix (Tables D, E) we break down estimates of Mexican Americans by major city and county. As can be seen, even in very small towns or counties Mexican Americans are paying their share of the state and local taxes. They pay an estimated 42 million dollars in Hennepin County to 140 thousand dollars in Cottonwood County. They pay an estimated 21 million dollars in Saint Paul to 90 thousand dollars in Renville.

A Flawed Immigration Debate/Policy

There is an active academic debate on the costs and benefits of immigrants to the state and nation. The national and local debate critical of open immigration have a number of flaws in their arguments that need to be addressed to ensure the economic health and

global competitiveness of Minnesota and the nation:

- *Not a Comprehensive Analysis:* Unlike the National Research Council (NRC) study of Immigrants in 1997 which was a panel of experts who looked at the issue of immigration in a very thorough and comprehensive manner and focused on many of the arguments of the critics today, the newer studies tend to focus entirely on unskilled workers and are very silent on the contributions of high skilled immigrants. Further recent studies point out that immigrants may raise the income of high school graduates and those with some college – groups that tend to be most critical of immigrants. These groups benefit through moving up in their jobs say from worker to supervisor or who benefit from rising value of home prices or lower prices of goods produced by immigrant labor.
 - This report looks at the multidimensional contributions of Mexican Americans to Minnesota. There are practically no studies that include all these dimensions in their analysis. For example, studies focusing on the fiscal impacts of immigrants are likely not to include an analysis of the value immigrants add to the economy as consumers, entrepreneurs, global capital, productive workers, cultural capital and political capital. Locally the Department of Administration's report on the cost of undocumented workers is an example of this partial analysis.
 - *Methodological Flaws:* Recent research points to a significant criticism of the leading studies of critics of immigration. They argue that if we use a more dynamic economic model we will come to the conclusion that immigration has a net benefit to society. More recently one of the authors has challenged the leading researcher of immigration policy and showed that there are serious methodological problems in the model used to produce the results of a negative impact of immigrants on wages.
- *Missing the Point:* The recent studies critical of open immigration policies miss some important points established by other studies, namely:
 - *Immigrants are not the cause of Declining Wages of Low Skilled Workers* - The point brought out by the NRC 1997 and recent studies illustrate that immigrants are not the cause of the decline in the wages of low skilled workers – there are other factors more important such as the role of technology and our global economy.
 - *Immigrants do work complementary to Native Workers and Help Improve Native Workers Income* –Recent studies illustrate that immigrants workers are for the most part complements to native workers and not substitutes. For example in skill levels, immigrants are found at the very high skills and the very low skill levels while native workers are found at the high school to college level skills. Consequently immigrants do work in areas that actually improve the productivity and income of natives, for example native workers who

are supervisors benefit from immigrant worker's productivity. Recent studies point to the fact the most recent waves of Latinos help improve the economic conditions of earlier waves of Latinos. Others illustrate that low skilled immigrants have had positive impacts on the lives of professional women by increasing the amount of time they could devote to their careers by as much as 33 minutes per week.

- *Race may not be the Issue – Skill Level could be-* Some critics of immigration argue that new immigrants take jobs away from other minority groups. The NRC 1997 study pointed out that low skilled immigrant workers might be substitutes for low skilled native workers (who could be of any race or ethnicity) in large cities. However, this could be a small negative impact. Moreover at a larger level this could be an issue of skill level and not race or ethnicity – the real challenge is retooling our low skilled workforce so that they can compete for the higher paying jobs.
- *Role of the American Business Model and Technological Change Missing* – The immigration debate does not fully include a consideration of the American business model or the market system geared towards efficiency and profits to shareholders and owners. Assuming the immigrant pool of workers leave or are deported and wages rise to meet the new supply of labor – -with a global production platform, what would prevent a meat packing plant from shifting production to a low cost region in another state or country? We do not know the wage threshold that will spur such decisions. Yet researchers assume that native workers wages will rise (and they will keep the jobs that immigrants did) if immigrants were not in the picture.
- *The real issue might be improving the skills of America's high school dropouts* – Most studies point to a small negative impact of new immigrants on native high school drop outs. While immigrants are blamed for their drop in earnings the conclusion of many of these studies is to restrict low skilled immigration and not retooling the unskilled in this country. This should be a national priority.
- *Minnesota Insights:* A Minnesota study found a negative impact on local wages but the results were not statistically significant. The author concludes that the results might not be as similar to other studies finding a negative and significant impact because of the small size of the immigrant population in Minnesota. However this study has the same limitations that have been pointed above. In the Minnesota context when we look at labor employment data the following significant facts stand out that lend support to the recent criticism of established immigration research:
 - *We can see different occupational distributions of immigrants and native workers.*
 - *The case for imperfect substitution between Minnesota natives and immigrant workers can be seen not only because of language and cultural barriers as pointed out in the recent research, but also*

because of demographic shifts that is restricting the labor pool in various parts of Minnesota.

- *One can argue looking at the high turnover rates in occupations and industries where low skilled immigrants are found that any native who wants that job could get it if they tried.*
- *As data from DEED's Occupations in Demand tool illustrate many occupations where immigrants are found are high on the labor demand rankings.*
- *My analysis of both employers sanctioned by the former INS as well as applications for high skilled immigrants in Minnesota illustrates that there is a high demand all across Minnesota for these workers. For example firms in 125 cities in Minnesota applied for visas for high skilled foreign workers in Minnesota. During the period 1989 to 2000 over 1000 Minnesota companies were sanctioned for using undocumented workers. These firms were located in 79 percent of the counties in Minnesota.*
- *When policy makers present costs of immigrants they do it in a biased manner by providing these costs on their own without a reference point. What will be helpful for the taxpayer is to have a frame of reference – for example comparing the cost for public services versus cost of subsidy given to a private business or to participants in an economic development program.*
- *The debate around immigration especially by policy leaders critical of immigrants end up imposing a stigma on all immigrants and citizens who look like “illegal immigrants” as it is difficult to judge from appearances who is legal or not. This takes racial profiling into a new level. This also sends messages of xenophobia to our global partners and negatively impacts our image as a global competitor.*
- *A failed WND Immigration Policy for Low Skilled Workers – the current immigration policy could be classified as a “Wink and Nod” (WND) immigration policy for low skilled workers and is to blame for the current paralysis in immigration reform in the country. Policy makers allowed the flow of undocumented migrants through the borders to meet the labor needs of businesses instead of developing a systematic mechanism such as that for high skilled workers. Now policy makers want to clamp down on the flow of migrant workers without a coherent policy to meet the labor needs of industry. The cost of the WND policy is borne by a group of people in the country without legal status and extremely vulnerable to exploitation. The only response of policy makers is to increase “enforcement” actions that operate in a legal/judicial vacuum disconnected to the economic realities of the country or state as documented in the policy simulations of this report.*

- *Commonsense Conclusion Might be Right:* The conclusion of a recent study on the impact of immigrants on the economy reaches a surprising but commonsense conclusion: *the costs of immigrants might not be as high as the critics and the benefits not as high as the advocates of open immigration.* The positive or negative impact of immigrants in the workforce depends on the strength of the local economy, labor demand and supply conditions and how easy it is to substitute labor for technology. It is also obvious that workers without proper legal status or poor bargaining status are vulnerable to exploitation by employers.

A Framework for Immigration Policy

Our debate about immigration policy has been quite heated over the past few months. Out of this discourse we can distill a new framework for immigration policy that will lead to an appropriate solution to the challenge that is before us.

From Cultural Anxiety to Cultural Self Confidence

There is considerable cultural anxiety in the country over the loss of what people consider the core cultural identity of the country. We need to shift our focus from cultural anxiety to cultural self confidence knowing that as immigrants have come to this country, over the centuries, they have always enriched the core cultural identity of America which at its root is not a language or a set of traditions but the idea of liberty, freedom and a never ending quest to discover, adapt and innovate.

From Economic Anxiety to Immigrant Capital

There is considerable economic anxiety brought on by this global interdependent economy. We need to move beyond this economic anxiety and discover that immigrant capital could hold the key to our prosperous future.

From the Short Term to the Long Term

Most of our policies have the short term political cycle as their frame of reference. Census data shows progress made by successive generations of immigrants to this country whether it is in educational levels or homeownership rates. In the long term there is a net benefit from immigration.

From a Local Perspective to Global Interdependence

The need of the hour is to take a global perspective as we deal with local issues. Who would have thought that firms from India and China would create jobs for Minnesotans through their investments in the local economy?

From Opinion Based Policy to Fact Based Policy

We need to move our debate and policies from opinions to facts. Too often in the debate facts are used to discredit the other perspective. What we need to do is to have a vigorous debate over the facts and allow this dialogue around facts to lead to sound policy decisions.

From Broad Policies to the Specificity Rule

There is an important principle in economics called the specificity rule – target your solution to the source of the problem. In the immigration debate as we try to come to solutions too often we see broad policy solutions instead of focusing on a core issue and dealing with it with the right set of tools.

From Terrorism Anxiety to Intelligent Vigilance

One can easily see the importance of security and intelligent vigilance. If we just go by racial or ethnic profiling we would find it so hard to distinguish a potential terrorist from an ordinary citizen. With intelligent vigilance we can use technology and other tools to be more specific who and what we are looking for. What we should be working on is building community networks of trust and friendship because in the long haul that is our biggest defense against terrorism.

From a Closed Dialogue to an Open Dialogue

Too often in the debate we do not get very far because we get lost in our communication about the issues. What compounds matters are that the color of immigrants has changed and so any discourse on the topic gets meshed in racial overtones. That is why it is so important to have the right context and form for a discourse on immigration.