

An Analysis of State Level Immigration and Inequality over the last Two Decades: The Case for Aid to State Governments

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Immigration news has increased over the last two decades amid calls for greater exclusionary policies on the one hand versus more aid for immigrant assimilation and economic adjustment on the other. If most economic research is correct in that the national and overall benefits of immigration outweigh the costs, including any costs associated with undocumented workers, then calls for aid to state and local governments, which may not receive tax benefits proportional to their expenditures for new arrivals, are somewhat justified. This is especially the case for the states that have the largest foreign born populations. Federal aid would be especially appropriate if states possess high levels of inequality due to the presence of this population segment, as they struggle to pay for services for all of their low and moderate income families. Such aid is also socially equitable if the states have experienced higher than average economic growth and higher than average business profits. State governments have little incentive to practice redistributionist policies (Peterson 1981), so it has been traditionally up to the federal government to alleviate poverty and inequality. This research note identifies linkages among state immigrant levels, inequality, and business profitability over the two decades prior to the onset of the 2007-2009 recession, testing arguments for using federal aid to help states respond to immigration.

US history is replete with examples of anti-immigrant and nativist movements that have surfaced from time to time despite literature, rhetoric and nostalgia celebrating a “nation of immigrants” (Higham 1970, Cummings and Lambert 1998, Chomsky 2007, and Tichenor 2007), and over the last two decades the nation has seen more examples of angst

toward immigrants, whether documented or undocumented¹ (Independent Task Force on Immigration, 2006). Perhaps since the passage of Proposition 187 in California in 1994 (a controversial referendum which restricted immigrant rights and benefits but was later struck down by the courts), there has been a “new” addition to the traditional anxieties over immigration (those revolving around the issues of race, assimilation, competition with natives for jobs, population growth etc.), a growing concern over how much immigration costs federal, state, and local governments in terms of welfare, school expenditures, and health care, especially in relation to what immigrants contribute in taxes (Calavita 1996, Tichenor 2007). Because many social programs are either state funded or managed by state governments, which must operate under balanced budgets, and because the federal government has often been slow to change immigration laws, restrictionist movements focused on public expenditures have originated at the state level, especially in California which has a large immigrant population. State policy makers have felt frustrated trying to provide services to new arrivals and their children² due to limited resources, and restrictionist movements have received support from native voters (Calavita 1996).

At the same time, many do not see the fiscal pressure brought about by new arrivals as necessitating spending cutbacks or restrictions, but instead foresee a greater role for the federal government helping states to provide services to recent immigrants (Independent Task Force 2006, Congressional Budget Office 2007) especially in light of research that immigrants, including the undocumented, on net and to one degree or another provide more benefits than costs economically and fiscally to national and state economies even despite wage losses suffered by low-skilled and undereducated workers (Borjas 1995, Hanson, Scheve, Slaughter, and Spilimbergo 2001, Econoblog 2006, Independent Task Force 2006, Borjas and Katz 2007, Chomsky 2007, and Guskin and Wilson 2007). Federal support is also deemed to be justified on equity grounds since many estimates find that the federal government collects more in taxes from immigrants than the value of benefits returned to them when compared to other groups (Independent Task Force 2006, Council of Economic Advisors 2007, Congressional Budget Office 2007). Finally, it is argued by some that the long term economic development of US cities and regions depends upon providing and creating better education, greater racial and ethnic diversity, and less inequality at the local level (Florida 2002 and 2005). This means that giving aid to better educate and assimilate immigrants as well as to remedy the causes of inequality are essential to long term development.

Extra help for states to deal with immigrant populations has met with mixed results. For the Immigration Reform and Control Act (IRCA) of 1986, a State Legislation Impact Assistance Grant (SLIAG) program was created to help states with providing services to millions of previously undocumented aliens who were granted amnesty by IRCA, but it was criticized as being no more than a reimbursement program for state expenditures and was deemed “confusing and cumbersome” and later allowed to expire (Independent Task Force, p. 79). As another example, the federal 2001 No Child Left Behind Act (NCLB) prescribed that more English as a Second Language (ESL) classes and curriculum to be offered by local schools, but this has been criticized for being an underfunded mandate (Darling-Hammond 2007). Instead, a new block grant program has been proposed to help states cope with immigrant populations, with spending programs that would help new ar-

rivals develop English language skills, or obtain health care, and/or receive job training (Independent Task Force 2006).

This paper presents models demonstrating that the level of the immigrant or foreign born population (which is also highly correlated with each state's estimate of undocumented population) is linked to the health of states' economies, and business profitability and to their levels of inequality. If states with high levels of immigrants also have both high levels of inequality and higher business profitability, then calls for greater redistribution from the federal level to the state level can be justified on social equity grounds, especially in light of the scholarly evidence and findings that immigrants pay more in taxes than benefits received and that it is primarily the role of the federal government to carry out redistributive policies (Peterson 1981).

Methods

This paper uses two regression models to show 1) a relationship between foreign born population and inequality and 2) a relationship between foreign born population and state business profitability. Immigrant population and inequality are examined first, and then immigrant population and state business profitability are examined next.

Over the last few decades, US income inequality has increased as indicated by increases in the Gini coefficient and the income shares of the top 5 and 20 percent of households (US Census Bureau data 1947 to 2008, Miller, Benjamin and North 2010). The Gini coefficient is a standard measure of inequality ranging from 0 to 1.0 with higher scores indicating greater inequality (MIT Dictionary of Modern Economics, 3rd edition, 1989). According to the Census Bureau, the share of income received by the top 20 percent of households went from around 44% in 1980 to 50% in 2008 whereas the Gini coefficient increased from 0.396 to 0.438 over the same time period. In 1990 the Gini coefficient was 0.428 whereas the income share for the top 20% of households was 46.6%. There are no databases which provide income shares for the states, but the Census does provide Gini Coefficients for the states for the two most recent decennial censuses as well as the most recent version of its American Community Survey 3 Year Estimates, which is for 2006-2008.³ If increased immigration (among other factors) is responsible for greater inequality because of wage losses by low skilled and less educated workers (Miller, Benjamin and North 2010), then the level of the foreign born population⁴ in a state should be a strong, positive (+) predictor of a state's Gini coefficient in addition to other factors cited as causes of inequality, such as a state's level of

1. Unemployment and poverty (+). These percentage are added together to avoid any possible multicollinearity ($r = 0.424$) and to create some type of "deprivation index" as both of these contribute to inequality by increasing the ranks of households at the bottom of a state's income distribution (Freeman and Katz 1995, Gordon 1996, Birchfield and Crepaz 1998, Pressman 2007 and 2010, Miller, Benjamin and North 2010).⁵
2. College graduates (+). Higher levels of college graduates in an area contribute to greater levels of inequality since their pay is so much greater than low skilled and high school-only educated workers, and at the national level, the increase in college graduates over the last

Table 1. Descriptive Statistics

Variable	Mean	Std, Deviation
Gross Operating Surplus	\$68,822,420,000	\$93,034,191,091
Gini Coefficient	0.44107	0.02286
Pct College Educated	16.836	3.817
Pct Union Member	12.73	5.912
Unemployment Rate	4.5613	1.2068
Pct Poverty	12.123	3.336
Avg. 3 Yr Increase in GDP	6.047	2.33

several decades has been cited as contributing to the widening wage gap between skilled and unskilled workers (Miller, Benjamin, and North 2010).⁶

3. Union membership (-). Greater levels of membership in a state should mitigate against low wages for less educated workers (Freeman and Katz 1995, Gordon 1996, Birchfield and Crepaz 1998, Pressman 2007 and 2010).⁷
4. Average of the increases in gross state domestic product for the three years preceding the measurement for the Gini coefficient (+). Rising GDP decreases levels of inequality due to lower unemployment levels and rising wages that accompany the GDP gains (Birchfield and Crepaz 1998).⁸

(All variables are for the years 1990, 2000, and 2007 with the exception of the last one).

Meanwhile, proprietors’ business profits and after tax corporate business profits rose 191% and 340%, respectively, between 1990 and 2007 as the compensation of employees rose around 142% (Bureau of Economic Analysis 2000, 2007). If business profits are doing well in states that also suffer from high levels of inequality, then some type of remediation could be deemed equitable. Members of the foreign born population often work in low paying, entry level jobs or work illegally for pay below that earned by natives (Independent Task Force 2006) which contributes to greater profitability for their employers. Unfortunately the US Bureau of Economic Analysis (BEA) does not publish business profits or net operating surplus (before or after taxes) by state, nor do they calculate gross operating surplus per industry for each state for each year. Values for some sectors such as agriculture are not disclosed annually for some states, so total gross operating surplus (GOS) for each state for the years 1990, 2000, and 2007 are used to approximate the states’ business profits. BEA defines a state’s GOS as

Gross operating surplus. Value derived as a residual for most industries after subtracting total intermediate inputs, compensation of employees, and taxes on production and imports less subsidies from total industry output.

Table 2. Correlation Coefficients

Variable	1	2	3	4	5	6	7
1 Gross Operating Surplus	1						
2 Gini Coefficient	0.492303	1					
3 Pct College Educated	0.004768	-0.35259	1				
4 Pct Union Member	0.084758	-0.21183	0.369145	1			
5 Unemp + Pov Rates	0.109396	0.286971	-0.18663	-0.0572	1		
6 Pct Foreign Born	0.681848	0.338319	0.261743	0.303789	-0.11817	1	
7 Avg. 3 Yr increase GDP	0.109013	-0.12072	0.238523	0.010699	0.051045	0.210956	1

Gross operating surplus includes consumption of fixed capital (CFC), proprietors' income, corporate profits, and business current transfer payments (net). Prior to 2003, it was referred to as other value added or property-type income. (www.bea.gov)

For states this is the closest one can get to a business profitability measurement for a given year. Each state's GOS is regressed against the following independent variables that are hypothesized to have the following signs, positive or negative, to indicate the direction of the relationship between dependent and independent variables:

1. Percent Foreign Born (+). If immigrants are low paid and make up a sizeable portion of a state's workforce, then everything else held constant, we would expect business profits for a given state to be higher than usual.
2. Percent College Educated (-). A greater amount of college educated workers in a state's workforce, everything else held constant, usually means more spending on payroll, which cuts into business profitability.
3. Percent Union Members (-). A high union presence in a state usually means higher pay, which cuts into business profitability in general.

Table 3. Gini Coefficient*Tobit Regression: Dependent Variable is Gini Coefficient*

Predictor	Coefficient	Std Error	Z-score	P-value
Intercept	0.451215	0.0096165	46.92	0.000
Pct Foreign Born	0.0023084	0.0002654	8.70	0.000
Pct College Educated	-0.0018681	0.0004095	-4.56	0.000
Pct Union Member	-0.0009692	0.0002588	-3.74	0.000
Unemp. + Pov. Rates	0.0017140	0.0003638	4.71	0.000
Avg. 3 Yr increase GDP	-0.0017450	0.0006216	-2.81	0.005

Log-Likelihood = 400.690

N = 150

Ordinary Least Squares: Dependent Variable is Gini Coefficient

Predictor	b	Std Error	Z-score	P-value
Constant	0.451215	0.009815	45.97	0.000
Pct Foreign Born	0.0023084	0.0002709	8.52	0.000
Pct College Educated	-0.0018681	0.0004180	-4.47	0.000
Pct Union Member	-0.0009692	0.0002642	-3.67	0.000
Unemp. + Pov. Rates	0.0017140	0.0003713	4.62	0.000
Avg. 3 Yr increase GDP	-0.0017450	0.0006345	-2.75	0.007

S = 0.0170809 R-Sq = 46.0% R-Sq(adjusted) = 44.1%

N = 150

Durbin-Watson: 1.92

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4. Unemployment and Poverty Rates (+). Households in these categories create a “reserved army” of surplus, cheap, and available labor according to some economists and writers (Baran and Sweezy 1966, Braverman 1974), and so the hypothesis is that the greater these combined rates are, the greater the level of business profitability.
 5. Average of the increases in gross state domestic product for the three years preceding the measurement for GOS (+). Greater average state GDP growth should increase business profits, everything else held constant.

Table 4. Gross Operating Surplus*Ordinary Least Squares: Dependent Variable is Gross Operating Surplus*

Predictor	b	Std Error	Z-score	P-value
Constant	-1.02829E+10	37211831638	-0.28	0.783
Pct Foreign Born	12728412361	1026908602	12.39	0.000
Pct College Educated	-2972660443	1584777549	-1.88	0.063
Pct Union Member	-1474677135	1001532023	-1.47	0.143
Unemp. + Pov. Rates	4173387573	1407690943	2.96	0.004
Avg. 3 Yr increase GDP	-1279204046	2405482469	-0.53	0.596

S = 64760321692 R-Sq = 53.2% R-Sq(adj) = 51.5%

N = 150

Durbin-Watson: 2.22

(All variables are for the years 1990, 2000, and 2007 with the exception of the last one).

Other important determinants of each state's business profitability include levels of consumer spending, the business regulatory environment, the number of competitors in certain industries, a state's industrial mixture and composition, and many other variables. These are not included in this second model because this paper's focus is to look mostly at social and demographic variables that are possibly linked to business profitability, especially a state's level of immigration. However, another model with variables that account or control for consumer spending and competitive environment is included and discussed in Appendix A. The results of using that model are basically similar to this second one.

Results

Table 1 contains the descriptive statistics and Table 2 the Pearson correlation coefficients for these variables. In looking at Table 2 there are no signs of multicollinearity among the independent variables. The pooled data set contains 150 observations for the 3 different years, and the Durbin-Watson test for autocorrelation shows that there is no correlation among the error terms in either of the ordinary least squares (OLS) regression in Tables 3 or 4 at the 0.05 level of significance (D-W statistic ≥ 1.72 cut-off value). Since the dependent variable "Gini coefficient" is a truncated or censored variable in that its value can be no more than 1.0, a Tobit regression (Amemiya 1985, Breen 1996, Woolridge 2006) is performed with the Gini coefficient as a dependent variable, and the results are stated alongside a similar model using OLS regression in Table 3. Many times, however, the results of the two types of regression do not differ that much (Woolridge 2006).

Table 3 shows that whether the Tobit or OLS regression is used, all variables are statistically significant and have the hypothesized signs mentioned above, with the exception of the college educated, and the models explain a modest amount of the variation in the Gini coefficient. For OLS regression, the model explains around 44% in each year's Gini coefficient, and for the Tobit regression, a log-likelihood of 400.69 is a decent score (the larger it is, the more powerful the explanatory power of the model in a Tobit regression). For every 10% increase in the foreign born population of a state, on average the Gini coefficient rises 0.02, holding all the other variables constant.

In looking at Table 4, the model explains about 52% of the variation in a state's GOS, although only "Percent foreign born" and the sum of the unemployment and poverty rates are statistically significant at an alpha of 0.05 or less. The model shows that on average a 1% increase in the percentage foreign born in a state is associated with a \$13 billion increase in GOS, holding all other variables constant.

Conclusion

The regression results point to a linkage between a state's immigrant population and inequality as well as a linkage between immigration levels and business profitability. In addition to immigrants paying more in federal taxes than what they receive back compared to other populations, another form of exploitation is taking place with immigrant or foreign born populations usually being paid low wages, which in turn contributes to state level inequality. To be sure, many immigrants relish the opportunities brought about by living and working in the US, yet high degrees of inequality and wage exploitation can exacerbate demands for social services and strain state budgets because members of the foreign born population may have to resort to public services at one time or another, and also their children are eligible by law to attend school. Clearly, both those who argue against more public spending for immigrant populations, and also those who favor more aid to the states to help them with the foreign born need to understand the exploitive nature of immigrant employment (both documented or undocumented), leading to greater inequality and at the same time higher business profits. Again, since states in the US federal system have very little if any incentive to operate programs that are re-distributive in nature, the federal government should address equity problems associated with immigration.

If the keys to future economic growth in the US are diversity, less inequality, and a more educated workforce, then helping the individual states to address immigrant needs is crucial, especially given the high growth rate of the foreign born population over the last two decades. Such a large segment of the US population cannot be neglected or ignored by underfunding educational and social service programs.

Further research should focus on which types of local initiatives have worked well with regard to immigrant education, assimilation and support. Federal policy initiatives could be modeled after successful local ones with greater federal dollars helping to provide greater reach for these initiatives.

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Acknowledgment

The author would like to thank the editors and anonymous reviewers for their help in improving this manuscript.

Appendix A

An elaborated version of the second model developed in this paper is one that adds the following variables:

1. Right To Work State (+): A state which has a “right to work” law is hypothesized to have a higher gross operating surplus, everything else held constant. Right to work laws inhibit union formation and power and often allow employers the right not to recognize unions. This is a dummy variable where a state is assigned a 1 if it has a right work law, 0 if it does not. This variable is used as a measure of state business climate along with the percentage of union membership in each state.⁹
2. Small businesses as a percentage of all firms for 1990, 2000, and 2007 (-): States which have a greater share of small businesses (firms with fewer than 500 employees according to the Small Business Administration) should have more competitive environments, and hence, their operating surpluses should be smaller on average since standard economic theory predicts that more competition squeezes profits and that smaller firms do not benefit from economies of scale like larger ones.¹⁰
3. Median Household Income for 1989, 1999, and 2007 (+): This is used as a proxy variable for the typical level of consumer spending in each state – higher median household income should result in higher operating surpluses for businesses, everything else held constant.¹¹

The following table shows that after adding these additional control variables, the adjusted r-squared for the regression rises to 67.5% and the results obtained for two of the new variables are counter to what was expected, yet the main variable of interest, Percent Foreign Born, remains statistically significant with a positive coefficient. The Durbin-Watson statistic indicates no autocorrelation, and the correlation coefficients show possible multicollinearity between the variable Percent Union Member and Right to Work State although the signs of these variables do not change from the signs they have as correlation coefficients to when they are used in the regression model, so there appears to be no signs of severe multicollinearity.

Regression Results

Dependent Variable: Gross Operating Surplus for years 1990, 2000, and 2007

Predictor	b	Std. Error	Z-scores	P-value
Constant	-4.13573E+12	5.09289E+11	-8.12	0.000
Pct College Educated	-5712500669	1426970156	-4.00	0.000
Pct Union Member	-4034128127	1133047060	-3.56	0.001
Unemp + Pov Rates	1892544924	1366823992	1.38	0.168
Pct Foreign Born	10701380562	1139834537	9.39	0.000
Avg 3 Yr increase GDP	-206040699	2042054644	-0.10	0.920
Pct Small Business	43719284995	5263525819	8.31	0.000
Median Household Income	66190	589889	0.11	0.911
Right To Work State	-3.39842E+10	14090339425	-2.41	0.017

S = 53002417337 R-Sq = 69.3% R-Sq(adj) = 67.5%

N = 150

Durbin-Watson: 2.31810

Correlation Coefficients

	1	2	3	4	5	6	7	8	9
1 Gross Operating Surplus	1								
2 Pct College Educated	0.0048	1							
3 Pct Union Member	0.0848	0.3691	1						
4 Unemp + Pov Rates	0.1094	-0.1866	-0.0572	1					
5 Right To Work State (1=yes,0=no)	-0.0964	-0.3757	-0.7101	0.1118	1				
6 Pct Foreign Born	0.6818	0.2617	0.3038	-0.1182	-0.2100	1			
7 Avg 3 Yr increase GDP	0.1090	0.2385	0.0107	0.0510	0.1402	0.2110	1		
8 Pct Small Business	0.5610	0.2554	0.2407	0.1662	-0.1243	0.3230	0.1330	1	
9 Median Household Income	0.3297	-0.0072	0.1005	-0.4546	-0.2671	0.5474	-0.0672	-0.0493	1

Descriptive Statistics for Additional Variables

Variable	Mean	Std. Deviation
Right to Work State	0.44	0.498
Percentage Small Business	97.48	0.934
Median Household Income	\$40731	\$11523

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Notes

- ¹ “Immigration” will refer to both documented and undocumented unless noted otherwise.
- ² Although undocumented workers cannot receive public services legally, their children are eligible to attend local public schools (Guskin and Wilson 2007).
- ³ Since the data was collected over three years, values for 2007 (the middle year) are assumed for all data collected by the Census’s American Community Survey.
- ⁴ The US Department of Homeland Security has estimated the number of undocumented in the US since 1990 by using estimates of the US Census Bureau’s Foreign Born Population and comparing those numbers against documented aliens (US Department of Homeland Security 2009). Since the Department of Homeland Security’s estimates of the undocumented is highly correlated with the Foreign Born Population estimates statistically (Pearson correlation coefficient = 0.74), the percentage of a state’s foreign born population is used here as an independent variable to cover documented and undocumented population.
- ⁵ Sources of data: Poverty data are from the US Census Bureau (www.census.gov) and unemployment data are from the US Bureau of Labor Statistics (www.bls.gov).
- ⁶ Source of data: US Census Bureau.
- ⁷ Source of data: US Bureau of Labor Statistics.
- ⁸ Source of data: US Bureau of Economic Analysis, www.bea.gov.
- ⁹ Source of data: National Right to Work Law Legal Defense Foundation, <http://www.nrtw.org/>.
- ¹⁰ Source of data: Small Business Administration, http://www.sba.gov/advo/research/st_07.pdf, for the number of firms per state and <http://www.sba.gov/contractingopportunities/officials/size/table/index.html> for definition of small business size.
- ¹¹ Source of data: US Census Bureau’s Decennial Census for 1990 and 2000 and US Census Bureau’s American Community Survey, 2006-2008.

