

2010

The Economic Impact of Immigrants in Minnesota



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EXECUTIVE SUMMARY

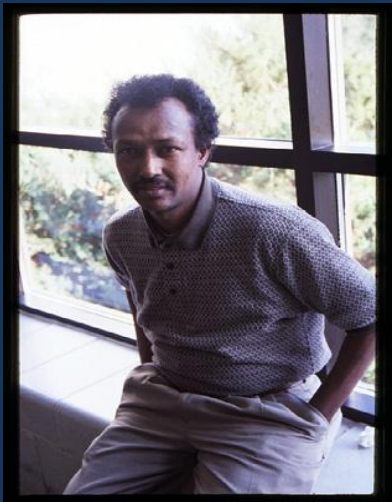
Relative to the US as a whole, Minnesota has a small, but rapidly growing population of immigrants. The foreign-born population comprises 7% of the entire population in Minnesota, compared to 13% nationwide, and includes both documented and undocumented individuals, with a wide range of ages, backgrounds, educational and skill levels. In the present report we summarize information on the estimated fiscal costs and contributions of immigrants in Minnesota. Our general conclusion is that they constitute an important resource to the nation and to the state, as a result of their entrepreneurial activity, consumer spending, tax payments, participation in the labor force and their less tangible, but no less important contributions to the social and cultural diversity of Minnesota. A few key facts about the economic contributions:

- The US Council of Economic Advisers estimates that the country's net gain from immigration is \$37 billion per year.
- Immigrant-owned businesses generated \$331 million dollars in net income to Minnesota in 2000.
- Hispanic-owned firms in the state have grown 350% since 1990.
- In 2008 there were 253,608 immigrants employed in Minnesota, representing 8.5% of the state work force.
- Foreign-born workers account for the majority of growth in the labor force in Minnesota.
- Nationally immigrants represent 25% of physicians and 40% of engineers holding doctoral degrees.
- The U.S. Labor Department reports that the nation has an immediate shortage of 126,000 nurses, yet the average wait for a nurse to get a "green card" is six years.
- Rural Minnesota alone faces a predicted shortage of 8,000 RNs in the next decade.

Immigration stimulates job creation. As industries expand and hire new workers, jobs are created to maintain this larger work force and to supply its needs for goods and services. Without new, young workers, certain sectors of the economy will continue to contract; by one estimate, if immigrants were removed from the labor force, Minnesota would lose over 24,000 permanent jobs and \$1.2 billion in personal income.

Comprehensive federal immigration reform is essential for the state to continue to realize the fiscal benefits of immigration. Such reform must include increases in visas to match the demand for labor, and a path to legalization. There is also a critical need for local efforts that insure the full social and economic integration of immigrants. Primary among these are state-sponsored efforts to improve high school graduation rates for immigrant youth, and employer-sponsored programs that insure opportunities for job training and advancement.

There were 386,380 foreign-born Minnesotans in 2008, representing 7.4% of the population.



INTRODUCTION

Definitions

How many immigrants are there in Minnesota? Although it may seem obvious, there are widely discrepant estimates because of disagreements over what—or who—is an immigrant. The most prevalent definition comes from the census question on place of birth. Some media accounts and reports by ethnic associations also include the US-born children of immigrants to describe the size of the Hispanic or Somali populations, for example. In this instance, ancestry and ethnicity become confounded with nativity. To further complicate matters, the Immigration and Customs Enforcement (ICE) uses the term ‘immigrant’ in a different manner—to refer to anyone who has been issued a permanent resident visa (green card). By this definition, temporary workers, undocumented individuals and others without permanent visas are not counted.

In the present report, we employ the census definition of immigrants according to place of birth.ⁱⁱⁱ By that measure there were 386,380 foreign-born Minnesotans in 2008, representing 7.4% of the population.¹ Thirty-eight percent of them entered the US during the past decade, and just under half (45%) of the foreign-born in the state were naturalized citizens in 2008.²

Even in the census, unknown numbers of some groups are undercounted—particularly members of ethnic minorities and foreign-born residents who are in the country without authorization. Estimates of the latter are based upon extremely rough calculations of the number of foreign-born residents in the US, less the number of visas issued by ICE, and the percentage of

ⁱⁱⁱ This report uses the terms “immigrant” and “foreign-born” interchangeably.

foreign-born in each state. These calculations have been the basis for estimates that there may be 60,000–80,000 undocumented residents in Minnesota. Some have over-stayed legal visas, and others have entered the country without visas.

“Why don’t they get in line?”

Because so much of the debate over ‘costs’ refers to undocumented immigrants, it is relevant to address the question of why the United States has such a large number of undocumented immigrants—an estimated eleven million. With the signing of the North American Free Trade Agreement (NAFTA) the United States lifted restrictions on the trans-national flow of goods and capital, but left in place restrictions on the flow of labor. Mexico is the country’s second largest trading partner (after Canada). The value of US goods exported to Mexico in January, 2009 was \$9.8 billion.³ As business and exports have expanded in the US, they have led to a dramatic increase in the demand for workers that cannot be met by an aging American work force. Some industries have employed advertising and direct or indirect recruitment of workers in Mexico and Central America; however, without legal means of securing visas to cross the US-Mexico border, or to gain permission to work once here, a majority of those who responded have become part of a large and increasing pool of undocumented workers.

Ironically, the most difficult visas to obtain are those for jobs that are projected to increase the most in the next few years. The Bureau of Labor Statistics estimates that by 2016, 30% of all occupations will require only on-the-job training.⁴ Key industries that are already experiencing a major influx of immigrant workers—such as hotels and motels, restaurants, agriculture, construction, light manufacturing, healthcare, and retailing—are also experiencing

Ironically, the most difficult visas to obtain are those for jobs that are projected to increase the most.



Introduction

The large number of unauthorized workers in the United States is attributable to the failure of the federal government to issue visas to match the increased demand for workers.



structural labor shortages.⁵ The shortages are exacerbated by increases in the educational levels of native-born adults, making them less inclined to accept low skilled jobs.

In spite of the demand, less than 1% of all of the employment-based permanent resident visas issued by the US go to low-skilled workers. There is a similar shortage of visas for temporary workers.

Although a higher percentage of employment visas are extended to high-skilled workers, business leaders at national and state levels complain that the allocation falls far short of the need. However, high-skilled individuals are less likely to enter the US without authorization because they have employment options in other countries.

In sum, the large number of unauthorized workers in the United States can be attributed to the failure of the federal government to issue visas to match the increased demand for workers. To respond to the rhetorical question above, *there is no line to get into*, and if there were, it would be an inordinately long queue, since almost all unauthorized immigrants (98%) would prefer to live and work in the US with legal status.⁶

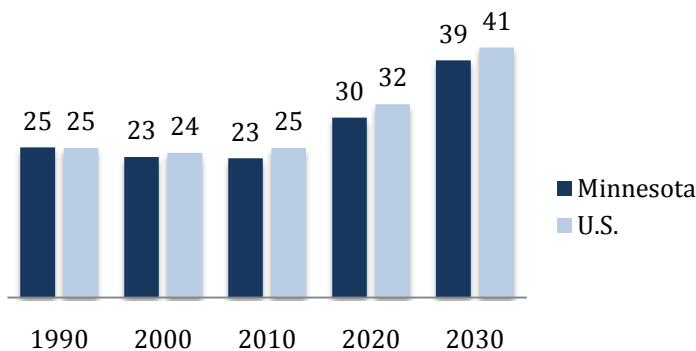
MINNESOTA DEMOGRAPHICS

An aging population

The national demographic trends of an aging populace and a strong economy are pronounced in Minnesota. The state has a disproportionate share of baby boomers^{iv} due to the *out*-migration of young native-born workers and the *in*-migration of cohorts of retirees. In a National Academy of Sciences article, Rogerson and Kim call this phenomenon “the emptying of the American bread basket of its breadwinners.”⁷

As they retire, aging boomers cease paying income taxes at precisely the time when they require additional social and health services. Demographers describe this change as an increase in the *dependency ratio*, i.e., the number of very young (under age 15) or very old (65 and older) individuals relative to the size of the working age population (ages 15–64) that supports them. *Figure 1* illustrates a rising ratio of seniors to working age residents in Minnesota and the US.

Figure 1: Ratio of Seniors (65+) per 100 Working Age (25-64)



Source: Dowell Myers, "Old Promises, New Blood," 2008.

^{iv} Individuals born between 1946 and 1964.

“The emptying of the American bread basket of its breadwinners has left the Midwest with a disproportionate share of its population in older age groups.”

Rogerson and Kim



Within the next decade, the Twin Cities region stands to lose more than 350,000 highly skilled workers to retirement.



Immigrant workers are concentrated in both high- and low-skilled jobs. Nationally they represent 25% of physicians and 40% of engineers holding doctoral degrees.

Nationally, Medicare will have about a third more beneficiaries by 2018,⁸ and in Minnesota there will be more retirees than children in elementary school by 2020. Both of these groups impose higher costs, on average, than the working-age population. Not coincidentally, the state Department of Employment and Economic Development (DEED) projects that nine of the top 20 fastest-growing occupations in Minnesota between 2006 and 2015 will be in health and social services.⁹

These changes have important economic consequences for the state and the nation as older adults retire and try to sell their homes in a weak housing market. Nationally, Social Security is growing increasingly vulnerable to what has been called a “silver tsunami.”¹⁰

Labor force trends—continued demand for young workers

The Brookings Institution’s Metropolitan Policy Program released a report which projected that, within the next decade, the Twin Cities region stands to lose more than 350,000 highly skilled workers to retirement.¹¹ As a result, even occupations that are expected to decline in numbers over the next ten years will have replacement openings. In 2008 there were 253,608 immigrant workers in Minnesota, representing 8.5% of the labor force;¹² however, immigrants have accounted for a majority of the *growth* in the labor force, both in Minnesota,¹³ and nationally.¹⁴

In *Table 1* we show changes in the number and percentage of US- and foreign-born workers in the Minnesota labor force between 1990 and 2008. Over that period the number of immigrants in the labor force increased by 166%.

Table 1: Immigrants & Native-born Residents in the Minnesota Labor Force 1990, 2000, and 2008

	#	%	#	%
1990	2,244,278	70.1	67,491	57.9
2000	2,534,110	71.4	152,955	65.4
2008	2,717,210	72.0	253,608	73.3

Genadek, 2010 (ACS data from 1990, 2000 and 2008).

Immigrant workers are concentrated in both high- and low-skilled jobs. Nationally immigrants represent 25% of physicians¹⁵ and 40% of engineers holding doctoral degrees.¹⁶

Rural Minnesota is plagued by an acute shortage of physicians: such communities are home to 13% of Minnesota residents but only 5% of the state’s medical doctors.¹⁷ State-wide there will be a predicted shortage of 8,000 RNs by 2020.¹⁸

Nationally there was a shortage of 16,680 physicians in medically under-served communities in the US in 2009. In spite of projected increases in the number of US-trained physicians, supply cannot keep up with demand because of the rapid aging of the population, and corresponding increases in medical care and hospitalizations. Ewing cites a study by the Association of American Medical Colleges estimating that, by 2025, there will be a shortage of 124,000 to 159,000 physicians in the United States.¹⁹

Many of Minnesota’s counties are seeing their populations decline

The demographic trends described above are particularly pronounced in rural counties. From 2000 to 2006, almost half of Minnesota 87 counties experienced net population declines—the second highest percentage in the Midwest.²⁰ This situation is not unique to Minnesota. Nationally, Kandel and

Without Hispanic residents (including immigrants and US-born), over one hundred non-metro counties would have lost population between 1990 and 2000.

Kandel and Parrado



The growing demand for workers has attracted immigrants whose arrival has stemmed population declines and stimulated the emergence of new businesses.



Parrado have estimated that, without Hispanic residents (including immigrants and US-born), over one hundred non-metro counties would have lost population between 1990 and 2000; nearly five hundred others had increases in Hispanics that were counteracted by larger decreases in the non-Hispanic population. In *Table 2* we compare population declines among states in the Midwest between 2000 and 2006.

Table 2: Population Decline Across Midwestern Counties (2000–2006)

State	Total counties	Counties with population decline	Percent of counties with population decline
Illinois	102	66	64.7%
Indiana	92	30	32.6%
Iowa	99	64	64.6%
Michigan	83	27	32.5%
Minnesota	87	43	49.4%
Missouri	115	36	31.3%
Ohio	88	31	35.2%
Wisconsin	72	14	19.4%

Source: Rob Paral, 2009.

The consequences of a graying population in rural Minnesota communities include a smaller workforce, school closings, and shrinking consumer bases for local businesses, to name a few. Meat and poultry processing has become the single most important activity in many rural Midwestern American communities, and in some south central Minnesota counties expansion of food processing plants has provided an economic injection. The growing demand for workers has attracted Hispanic, African and Southeast Asian immigrants whose arrival has stemmed population declines and stimulated the

emergence of new businesses aimed at immigrant workers and their families.²¹ Corrie cites data from the 2002 Survey of Business Owners showing that the number of Mexican American businesses in Minnesota increased by 64% from 1,163 in 1997 to 1,098 in 2002.²²

Work by Crowley and Lichter²³ clearly demonstrates the fiscal advantages that new immigrants bring to rural communities in the United States. They compared US non-metropolitan counties with high rates of growth in the Latino population with other rural counties, and found that the new Latino destination counties did significantly better on a number of measures:

- Lower rates of welfare per household, and faster decline in new welfare cases
- Higher median family incomes and per capita incomes, as well as higher median incomes among non-Hispanic whites
- Higher median home values
- Less per capita spending on education and public welfare^v
- Significantly larger *reductions* in overall arrest rates and arrests for violent and alcohol-related crimes
- No statistically significant difference in property crimes

Not surprisingly, the new Latino destinations did have higher rates of children with limited English proficiency, but this is a short-term cost. Furthermore, the influx of Latino youth has kept many rural schools from closing or consolidating. We demonstrate this graphically in Minnesota in *Figure 2*, in which we plot school enrollments in selected rural communities with and without Latino students.

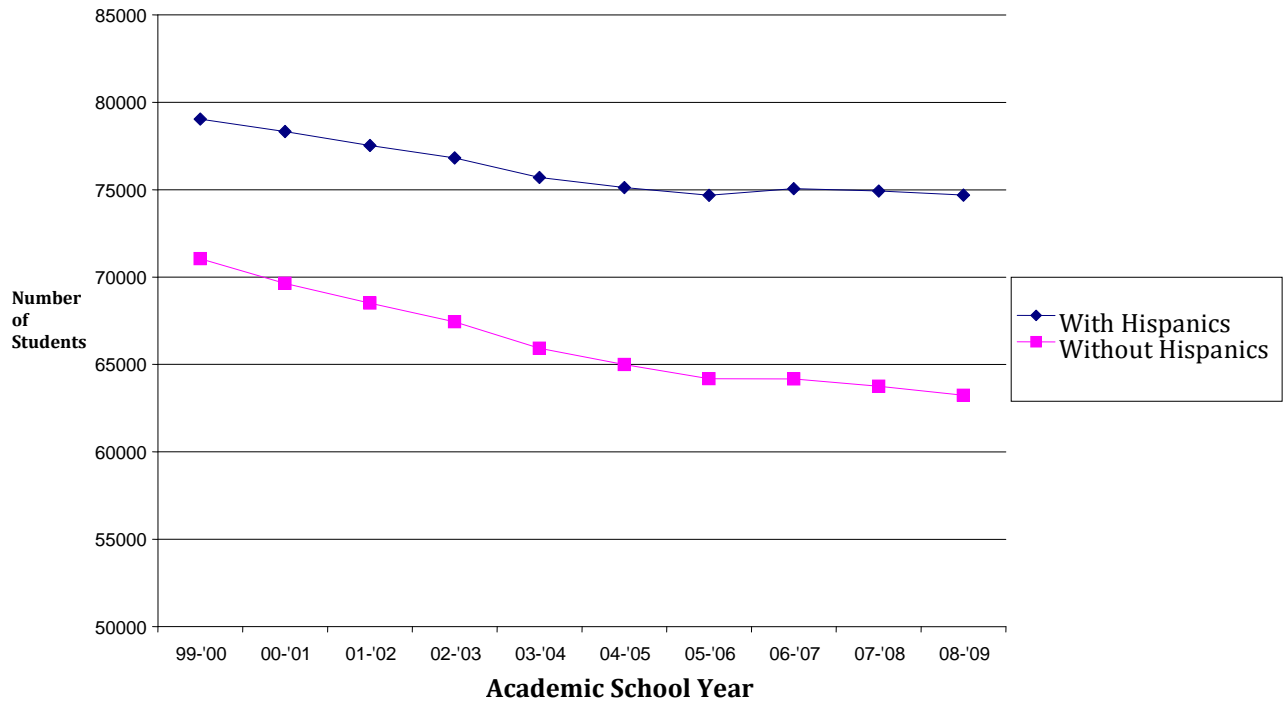
The children of immigrants are keeping many rural schools from closing or consolidating. Even with the enrollment of children of immigrants, between 2001 and 2006, 75% of Minnesota school districts experienced declining enrollments.



^v The authors note that the Latino destination communities had higher per capita spending on health and police protection, but that it was not the result of an increase in the Latino population.

(While not all Latinos are foreign-born, a majority of those in *rural* Minnesota are immigrants or the children of immigrants.)

Figure 2: Selected Non-Metro Minnesota Cities with the Largest Hispanic Populations: School Enrollments With and Without Hispanic Students, 1999–2008



*School Districts Included: Crookston, Moorhead, St. Cloud, Willmar, Marshall, Glencoe Silver Lake, Mankato, Northfield, Faribault, St. James, Worthington, Owatonna, Rochester, Albert Lea, Austin.

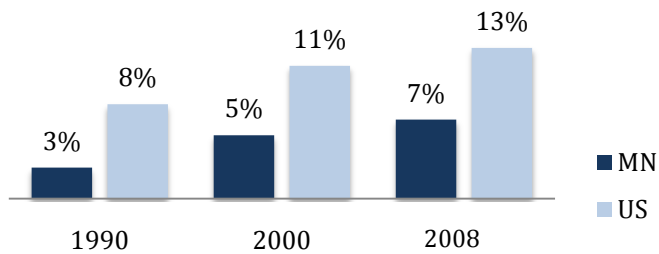
Source: Fennelly, 2009. Author's computations.

Under Minnesota funding formulas, schools gain an average of \$5,124 in funds for every pupil enrolled. Additional funds for Limited English Proficiency (LEP) students average about \$700. Given the striking declines in enrollment that would have occurred without Latino children, it is clear that the children of immigrants are keeping many rural schools from closing or consolidating. This is significant because, even with the enrollment of children of immigrants, between 2001 and 2006, 75% of Minnesota school districts experienced declining enrollments.²⁴

CHARACTERISTICS OF MINNESOTA'S IMMIGRANTS

Seven percent of Minnesota's population is foreign-born—well under the national average of 13 percent (see *Figure 3*). Although Minnesota has a smaller proportion of immigrants than many other states, it has several distinguishing characteristics. These include a relatively recent, very rapid change in the number of immigrants; a large proportion of refugees,²⁵ and high concentrations of immigrants in certain towns and cities.²⁶

Figure 3: Foreign-Born as a Percentage of Total Population



Source: Migration Policy Institute Tabulations of the 2007 American Community Survey
Author's update for 2008

Despite the relatively modest size of Minnesota's foreign-born population, there has been enormous public and media attention to immigration over the past several years because of the rapid increases in the population, and the arrival of refugees from war-torn countries. Between 1990 and 2000, the foreign-born population in Minnesota grew by 130%, compared with a 57% increase nation-wide. That rate of growth has slowed in recent years; in 2008 there were 386,380 immigrants in Minnesota, a 48% increase over 2000, compared to a 22% increase in the US as a whole.

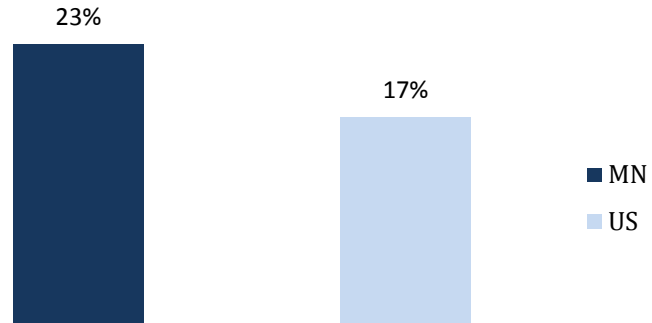
Minnesota has seen a rapid change in the number of immigrants; it has a large proportion of refugees; and certain towns and cities are home to high concentrations of immigrants.



National origin groups in the state differ from that of the country as a whole, with higher percentages of Africans, Southeast Asians, and refugees from former Soviet states.



Figure 4: Percentage of Immigrants Who Entered as Refugees, 2007



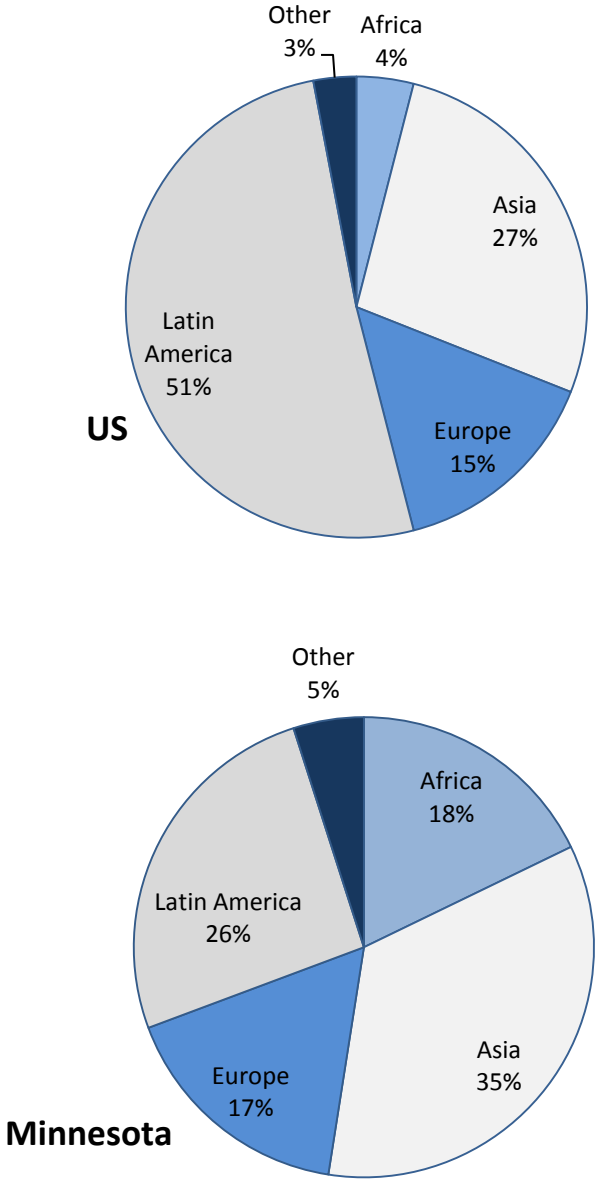
Source: Ronningen, State Demographic Center, 2009

Minnesota also has a higher percentage than other states of immigrants who are refugees (see *Figure 4*). In 2007 the figures were 23% in Minnesota, compared to 17% in the US. In previous years as many as 40% of the immigrants in Minnesota entered the country as refugees. As a result, the mix of national origin groups in the state differs from that of the country as a whole, with higher percentages of Africans, Southeast Asians, and refugees from former Soviet states (see *Figure 5*).

The colorful dress and religious differences of some groups of refugees, as well as their high concentration in particular urban and rural communities fuels the perception that the state is more diverse than it actually is.

A 2005 analysis of the General Social Survey revealed that White, non-Hispanic citizens who tended to overstate the size of minority groups by the largest amounts also tended to hold more negative views of such groups. Similarly, those who had the most distorted perceptions of minority group sizes favored more restrictive immigration policies.²⁷

Figure 5: National Origins of Foreign-born Population in the US and Minnesota, 2008

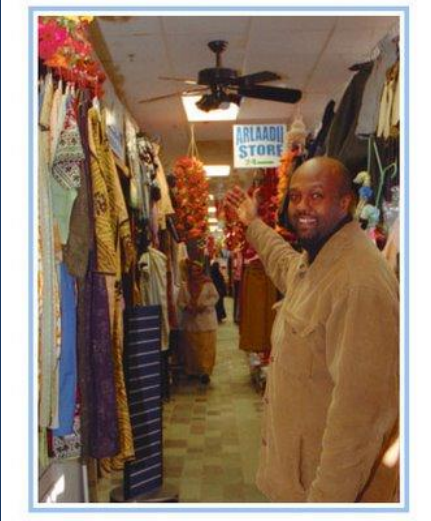


Source: Genadek, 2010 (ACS 2008 Data).

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Immigrants make net positive contributions to state economies, regardless of their legal statuses.



MEASURING COSTS AND BENEFITS

The contributions of immigrants at the federal and state levels

We have summarized a few key studies assessing the economic contributions of immigrants in other states (see *Appendix A*). In these reports the authors have employed varying methodologies and emphases, but overall they draw similar conclusions that immigrants make net positive contributions to state economies, regardless of their legal statuses. In contrast, in 2005 the Minnesota Department of Administration²⁸ issued a report that tallied only costs (and not contributions) of undocumented immigrants to the state because, in the words of then Commissioner Badgerow, “the exact dollar amount attributable to illegal immigrants is unknown.” The report was widely criticized for this omission, and for the fact that the primary source of data on costs came from the Center for Immigration Studies, a restrictionist ‘think tank.’ In 2006, the Office of the Minnesota Legislative Auditor issued a more positive, if cautious report on the economic impacts of immigration, concluding that “immigration probably has positive economic impacts overall, although certain workers and levels of government might experience adverse impacts.²⁹ While the OLA report pointedly noted that the 2005 Department of Administration report offered no estimates for immigrants’ contributions, “thus providing no basis for a judgment of their net fiscal impacts,”³⁰ they also concluded that a lack of solid data on undocumented immigrants precluded any such calculations.

Nationally, the US Council of Economic Advisers has estimated that the “immigration surplus” (the amount by which the native-born population gains in the aggregate from immigration) is \$37 billion per year.³¹ In June of 2006 over 500 economists and social

scientists (including five Nobel Prize winners) issued a letter to President Bush emphasizing the positive fiscal benefits of immigration for the US economy.³² The year before, the White House's annual 'Economic Report to the President' reached similar conclusions: "summing up the economic benefits and costs of immigration shows that, over time, the benefits of immigration exceed the costs."³³ The phrase 'over time' is key here, because—as we discuss elsewhere in this report—in the short-term the net fiscal impacts of immigration may be negative, but over time they become distinctly positive.

Furthermore, the absence of new immigrants would have dire consequences for the United States. Roberts makes this point succinctly in *The New York Times*:³⁴ "without new immigrants, by the middle of the century the nation's population would begin to decline, [and] the elderly would account for nearly one in four Americans."

The authors of the 2009 White House Report issued another clear warning regarding the effects of an increasing dependency ratio:

The demographic shift means there are fewer workers paying taxes into the Social Security system for each retired person. To illustrate, in 1950, there were 16 workers paying taxes into the Social Security system for each Social Security beneficiary, meaning the effective tax burden on each worker was only one-sixteenth of the average amount paid to each beneficiary. In 2007, there were 3.3 workers per beneficiary. The number of workers per beneficiary is expected to fall further, to 2.1 workers per beneficiary in 2035. As the number of workers per beneficiary falls, the effective individual burden of taxes for both Social Security and Medicare Part A increases. For example, for Social Security, the payroll tax rate has been raised more than 20 times.³⁵

Without new immigrants, by the middle of the century the nation's population would begin to decline, [and] the elderly would account for nearly one in four Americans.

Sam Roberts



Tax payments generated by immigrants outweigh any costs associated with services used by immigrants.

National Academy of Sciences



The Urban Institute estimates that, nationwide, 55% of undocumented immigrants in the labor force work for employers who withhold income, Social Security and Medicare payments from their paychecks.³⁶ As of October 2006, the US government's "Earnings Suspense File" of unclaimed social security payments totaled \$586 billion.³⁷

Scholars of the national fiscal impacts of immigration often refer to landmark studies published in 1997 by the National Academy of Sciences, in which they found that tax payments generated by immigrants outweigh any costs associated with services used by immigrants.³⁸ These assessments are based upon estimates of taxes paid by immigrants of all statuses. Contrary to public perceptions, even undocumented immigrants pay retail and property taxes, and a sizeable percentage pay income and social security taxes using federal Individual Taxpayer Identification Numbers (ITIN) in lieu of social security numbers. In 2005 over 2.5 million U.S. tax returns were filed using ITINs; by 2006 the figure had jumped by 25%.³⁹

Male immigrants are more likely to be employed than US-born adults, and undocumented male immigrants have remarkably high labor force participation rates. In 2008 94% were in the labor force, compared to 85% of legal immigrant men and 83% of US-born men (ages 18–64). This ranking is reversed for women.⁴⁰ Immigrant women are less likely to be employed (58%), compared to US-born women (73%).

Because both documented and undocumented immigrants constitute an important percentage of the labor force, it is their tax payments that led former Federal Reserve Chairman, Alan Greenspan to state that the Social Security deficit would be *lessened* if the US were to admit more immigrants. The Social Security Administration has estimated that

undocumented immigrants contribute approximately \$8.5 billion in Social Security and Medicare taxes each year.

Immigrants’ impacts on jobs and job creation

At the turn of the new century the United States enjoyed what some economists called full employment—i.e., unemployment rates close to 4%. This occurred at a time of unprecedented immigration. As noted earlier in this report, immigrants—and particularly undocumented immigrants—have very high labor force participation rates. Without immigrants, employment in roughly one third of all US occupations would have contracted during the 1990s, even if all unemployed native-born workers with experience in those job categories had been re-employed.⁴¹ *Table 3* shows the industries in Minnesota that would be most severely affected by a contraction in the supply of immigrant labor. In spite of downturns in jobs in several of these industries, immigrants represent over a fifth of the work force in manufacturing and education, health and social services. The former is influenced by the large number of foreign-born workers in food processing.

Table 3: Industries of Native- and Foreign-Born Workforce in Minnesota (Civilian Employed Population, Age 16 and Older, 2008)

Industry	Foreign-Born	Native-Born
Agriculture, Forestry, Fishing and hunting, and mining	1%	2%
Construction	5%	7%
Manufacturing	22%	14%
Wholesale Trade	2%	4%
Retail Trade	8%	12%
Transportation and warehousing, and utilities	4%	5%
Information	1%	2%
Finance and insurance, and real estate	6%	8%
Professional, scientific, management, administrative	12%	9%
Education, health, and social services	21%	23%
Arts, entertainment, recreation	13%	7%
Other services (except public administration)	4%	4%
Public administration	1%	3%
Total	100%	100%

Source: Genadek, 2010 (2006–2008 ACS data).

Nationally, foreign-born workers accounted for almost half of workforce growth between 1995 and 2005.⁴² This growth, in turn, creates new jobs for foremen and supervisors, support staff, human resource personnel and others in expanding industries. In Minnesota a study commissioned by the Region Nine Economic

Development estimated that about 2,600 Latino workers (both US- and foreign-born) in South Central Minnesota sustained 3,770 jobs held by non-Latinos in the region. When the researchers factored in increases in consumer demand, Latinos working primarily in food processing and packaging firms generated an additional 4,100 jobs in the nine-county region.⁴³

The wage differentials between US- and foreign-born workers vary greatly by occupation. The Fiscal Policy Institute has analyzed median salaries for a variety of workers in Minneapolis in 2005–2007. Foreign-born workers in professional specialties earned about \$3,000 more than their US-born counterparts, but those in blue collar occupations, such as food service workers, guards and cleaners, and construction workers earned between \$4,400 and \$21,000 less (see *Table 4*)

Table 4: Comparisons of the Median Salaries of Foreign-born and US-born Workers in Minneapolis: 2005–2007

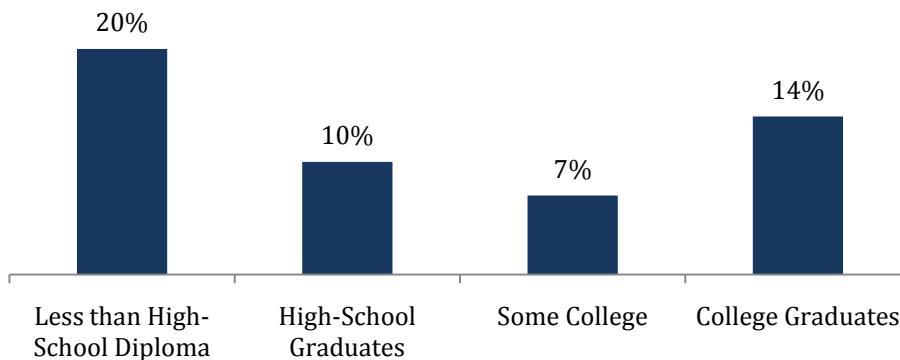
Occupations	Foreign-Born	US-born
Professional specialties	\$75,536	\$72,432
Food Service	\$17,202	\$21,638
Guards, cleaning & building services	\$23,075	\$32,077
Construction trades	\$28,130	\$49,667

Source: Kallick, D.D., 2010. Fiscal Policy Institute analysis of 2005-2007 pooled ACS data.

There is compelling evidence of the powerful effect that immigrants have on expanding employment opportunities for all workers in the United States. One study estimated that immigration was responsible for 20% of the growth in employment among workers without a high school diploma and 14% for workers with a college degree (see *Figure 6*).⁴⁴

Many immigrants work in low-skilled occupations, filling shortages created by an aging and better-educated native-born work force. As more Americans graduate from high school and college, they are less likely to take jobs requiring manual labor. Across the US, the percentage of US-born workers without a high school education has fallen dramatically, more than off-setting the addition of foreign-born workers without a secondary school diploma. Between 1990 and 2000, the share of Minnesotans without a high school diploma was halved (from 17% to 8%).

Figure 6: Percentage of All Employment Growth in the US Resulting from Immigration, 1990-2004



Source: Giovanni Peri, 2006.

Immigrant entrepreneurship and consumer spending

Immigrant entrepreneurship is another important source of economic growth. Immigrants represented 12% of the US population in 2008, but 17% of all new business owners.⁴⁵ In fact, immigrants are almost twice as likely as native-born Americans to start a business.⁴⁶ Their positive impacts are particularly notable in industries such as engineering and technology. Nationally a quarter of engineering and technology companies have had at least one foreign-born founder, and foreign nationals were inventors of 24% of international patent applications filed from the United States in 2006. Such patents “are likely to have a high global utility and contribute to US competitiveness.”⁴⁷ Since beginning a new life in a foreign country requires courage and self-awareness, such an entrepreneurial spirit is not altogether surprising.

In Minnesota, immigrant businesses are under-represented relative to their percentage of the population (6% of the population in 2008 and 3% of businesses). In spite of this they have a positive economic impact. Robert Fairlie estimates that immigrant-owned businesses generated \$331 million dollars in net income to the state in 2000.⁴⁸

In the metro area, the St. Paul Neighborhood Development Center reports that, as of 2002, 138 immigrant-owned businesses had created 386 new jobs, and spent \$5.6 million on payroll, rent, supplies and other expenses. The Brookings Institute has calculated that Asian-Indians alone own 400 companies in Minnesota that employ

“Countless Minnesota communities have been transformed by immigrant-owned communities.”



over 4,000 workers.⁴⁹ Hispanic-owned firms in the state have grown 350% since 1990.⁵⁰

The transformative effect of immigrant businesses in formerly down-trodden neighborhoods is evident in many parts of the metropolitan area (see for example the concentrations of Hmong, Hispanic, and Somali small businesses in formerly blighted areas of the city). Similarly, the main streets of a number of small towns have been rejuvenated by small businesses catering to the needs of foreign-born workers and their families.

As the foreign-born population increases, so does their consumer spending. According to figures published by the Selig Center for Growth at the University of Georgia, during the period from 1990 to 2008, Minnesota saw the ninth-highest increase in the country of buying power among its Asian residents, and the eighth highest increase of Hispanic buying power.⁵¹

The value of additional investments in immigrants' human capital

Ironically, much of the debate over what to put in the 'cost column' when calculating fiscal impacts could be avoided by heeding the conclusions of researchers at the National Research Council.⁵² After an extensive examination of the costs and contributions of immigrants in a variety of studies they concluded that:

On balance...estimates of the fiscal impact of immigration are affected more by differences in future earnings between immigrant families and the native-born than by differences in [social] program participation. The lower earnings of immigrants mean that they pay lower taxes, and these tax differences are much more substantial than the differences in benefits.

The implications of this statement are that, in order to boost the positive economic impacts of immigrants, both the states and the federal government need to make investments in *a productive workforce*. Relevant strategies include attention to improving human capital by raising graduation rates, and supporting programs designed to increase the job skills and English language proficiency of adults.

Immigrants in the United States and in Minnesota include both highly educated individuals and groups who have few years of formal schooling. Many highly skilled refugees, for example, are under-employed in the United States and in need of programs that will help them translate their skills into certification or eligibility for higher status jobs. The ability of immigrants to gain the educational and work skills that will translate into improved wages (and greater economic contributions to the state) depend upon needed reforms in immigration, education and social policies at federal and state levels. One encouraging national statistic is that newly arrived Hispanic workers are less likely to be low-wage earners in the current decade than in the 1990s, because they are older, better educated and more likely to be employed in construction, as opposed to agricultural worker in the earlier period.⁵³

Immigrants' contributions at the state level would likely grow if they were better integrated into Minnesota's communities

Larger investments in the education of the *children of immigrants* are sorely needed in Minnesota. Ironically, the state has one of the highest graduation rates in the country for white children, and one of the lowest for Latino youth.

More than any other single variable, low levels of completed schooling explain poverty in the United

“On balance... estimates of the fiscal impact of immigration are affected more by differences in future earnings between immigrant families and the native-born than by differences in [social] program participation.”

National Research Council, 1997



DEED has identified the shrinking of the achievement gap between minority and white youth as one of the most important challenges facing Minnesota.



Minnesota has a history of labor shortages. The state's economy has grown faster than other states, on average through importing labor.

States. In 2007, for example, American college graduates earned 74% higher wages than workers with only a high school diploma.⁵⁴ The Minnesota Department of Employment and Economic Development (DEED) has identified the shrinking of the achievement gap between minority and white youth as one of the most important challenges facing the state:

Without a narrowing of the achievement gap between the state's minorities and their white counterparts, demographic changes such as the slowing growth and aging of the Minnesota population will soon begin to put pressures on its abilities to meet business demands for a qualified workforce. These changes are imminent as Minnesota's baby boom population begins to turn 62 next year. For this reason it is imperative that the state ensure the full employability of all members of its workforce—both current and future.

At the same time, the state needs to make a significant investment in creating a more educated labor force.⁵⁵

The benefits of investments in K-12 education extend to US citizens and non-citizens alike. In Minnesota 80% of the children with at least one immigrant parent are US citizens by birth.⁵⁶ Special help with English literacy is essential for children who come from impoverished and monolingual homes where English is not the primary language, and who may have a particularly difficult time keeping up in school.

Immigration to Minnesota is not a new trend. Minnesota has a history of labor shortages, and the state's economy has grown faster than other states, on average through importing labor.⁵⁷ However, the dramatic increase in the number of immigrants arriving in Minnesota over the past decade has

attracted attention. Many other Midwestern states have experienced similarly rapid growth in their immigrant populations during the same time period; for all of them the continued ability to attract immigrant workers is crucial for future economic growth.⁵⁸

Immigrants must be *integrated* into Minnesota communities if they are to realize their potential as fully contributing members of society. To achieve this objective requires examining barriers to integration, including school and residential segregation, xenophobia, and discrimination that limits educational and occupational discrimination. Above all, the state should provide leadership by articulating goals designed to foster integration and by encouraging local governments to follow suit.

Limited English proficiency is another major barrier to integration, and one that reduces workers' earnings. An investment in English instruction at work sites and in the community is a means of increasing the economic contributions of immigrants by expanding their labor market opportunities and earnings, boosting productivity, and promoting integration.

The Governor's Workforce Development Committee has noted the serious need for young workers and, the benefits that come from broadening the racial, linguistic and cultural composition of the state: "Diversity is the energy that will fuel Minnesota's economy if we raise awareness of policymakers, employers, and the general public about the importance of embracing the energy and experience of diverse workers."⁵⁹

Demetrios Papademetriou suggests that policymakers consider which type of workforce development policies might lessen the impact of the economic downturn on the most vulnerable workers, regardless of their

Immigrants must be *integrated* into Minnesota communities if they are to realize their potential as contributing members of society.



The state should provide leadership by articulating goals designed to foster integration and by encouraging local governments to follow suit.

“Diversity is the energy that will fuel Minnesota’s economy.”

Governor’s Workforce Development Committee



“Minnesota businesses that benefit from the presence of foreign-born workers should come together to discuss how they can promote their educational and occupational advancement.”

birthplaces.⁶⁰ He calls for a Standing Commission on Immigration and Labor Markets that would make regular recommendations to Congress and to the Administration for adjusting immigrant admissions to expand and contract with labor force needs.

The state of Minnesota should follow suit. In addition, Minnesota businesses that benefit from the presence of foreign-born workers should come together to discuss how they can promote the educational and occupational advancement of this important component of the labor force. During the current recession, when many immigrant-serving agencies are struggling and closing, industry can serve an important role in ensuring the continuity of support services.

As we have noted, few of the fiscal benefits that accrue at the federal level reach communities with the highest concentrations of immigrants. It is incumbent upon the state to respond to these inequities in several ways: first, by lobbying the federal government to apportion funds to states and localities that have the most rapid increases in the foreign born population; second, by making additional *state* resources available to such communities and to immigrant-serving agencies, and third, by rewarding businesses that invest in strengthening multi-cultural communities.

COSTS ATTRIBUTED TO IMMIGRANTS

Data limitations

There are a number of challenges inherent in accurately measuring the costs and contributions of immigrants. First, many studies incorrectly assume similar usage of public services by immigrants and natives. Compared with US-born residents, immigrants over-utilize some services and under-utilize others, and this varies by national origin group, age, immigration status, region of the country and socio-economic status. As a young population, immigrants are less likely to be consumers of health and social services. Furthermore, we have shown in earlier work that, on average, immigrants are healthier than US-born residents, even after controlling for age.⁶¹ This phenomenon, combined with the curtailment of eligibility for welfare and other means-tested programs since the major welfare reforms of 1996, has led to under-utilization of health services. The Kaiser Foundation has noted that because immigrants are less likely to access health care, in 2005 non-citizens' average annual per capita expenditures on such services was less than half that of citizens' expenditures.⁶²

In any assessment of costs, two factors can lead to widely varying conclusions: these are assumptions regarding the variables that belong in the 'cost' column, and the time frame for the analysis. Certainly the cost column for foreign-born and US-born residents alike can be stretched to include hundreds of public services, from utilities and waste management to construction, education, health services, jails, environmental programs and many more. As citizens we take these costs for granted *because they are paid by our taxes*. As described in detail in the next section, immigrants, too, pay taxes. In regions where they have predominantly low wage jobs, their tax contributions and retail expenditures are lower—just as they are for low income US-born residents.

Another problem with cost estimates is that they are frequently calculated in the short run when they are highest. As the National Research Council reminds us, “studies often over-state the costs of immigration by measuring costs before adults reach working age.”⁶³ *All* individuals' economic contributions vary over time, from higher levels when they are very young or very old, to lower levels when they are in the labor force.

Like US-born residents, immigrants' net contributions may be negative in the short-run, when children are in school, but positive over their lifetimes as more foreign-born adults enter the labor force.



Like US-born residents, immigrants' net contributions may be negative in the short-run, when children are in school, but positive over their lifetimes, as more foreign-born adults enter the labor force.

Uneven distribution of costs and benefits

The economic consequences of immigration are not uniform; the uneven geographic concentration of foreign nationals creates an uneven distribution of both the costs and benefits of immigration.⁶⁴ In the case of low-skilled immigrants, the tax benefits that accrue at federal levels do not trickle down to states or local communities that experience the largest increases in foreign-born workers and their families. Furthermore, state governments bear more of the responsibility for the costs associated with children and families (that increase in the short-term when new groups of immigrants arrive), while the federal government foots most of the bill for services like Social Security and Medicare.⁶⁵ We have noted the economic stimulus that such an influx provides, but there are also costs as cities and towns scramble to meet the needs of new, diverse populations. This can be particularly challenging in rural communities that do not have an infrastructure of needed translation, cultural, health and social services. While large employers benefit from the availability of a regular pool of entry-level workers, the fiscal benefits to local communities are variable.

Immigration can bring social stresses as well, as native-born residents learn to adjust to an influx of ethnically dissimilar individuals. Again, this is particularly pronounced in rural areas that have a high percentage of older residents with modest levels of education. Much depends upon whether local leaders embrace or resist demographic change. Where there are leaders who articulate the advantages of diversity, tensions tend to dissipate over time.

The impact of immigration on wages

Nowhere is there more controversy than in debates over the impact of immigration on wages. (See *Appendix B* for a summary of these arguments.) Much of the research focuses on national impacts and has not yet been conducted to identify such impacts for Minnesota. The debate on wage impacts is ongoing and, while they are very important, wages are only one dimension of an assessment of the costs and contributions of immigrants.

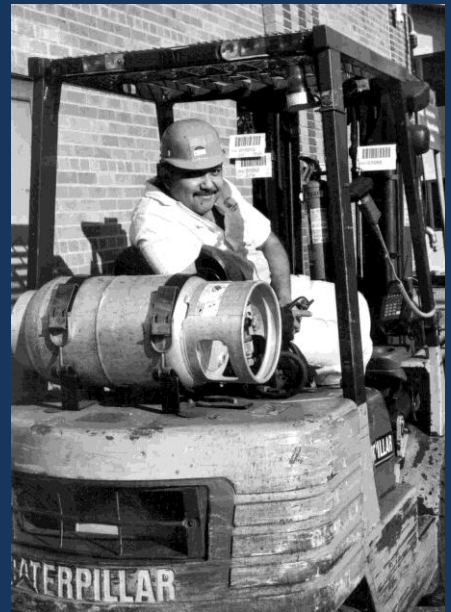
Oft-cited economist George Borjas maintains that an influx of immigrant workers has reduced the average annual earnings of US-born workers by 4%, with a larger impact on the wages of those who do not have a high school diploma. However, his work is criticized by David Card, who counters that census data show that the wage gap between dropouts and high school graduates in the US has remained nearly constant since 1980, in spite of a significant increase in immigration. Giovanni Peri suggests that Borjas has neglected to factor in the extent to which new foreign workers *stimulate job creation* by injecting capital into the economy and increasing consumption.⁶⁶ He argues that, rather than competing for the same jobs, immigrants complement the native-born work force, thereby increasing productivity and wages.

Work by Peri shows that the wages for the vast majority of Americans have increased due to immigration, but that there is a slight negative effect on non-high school graduates:

During the 1990-2004 period, the 90% of US workers with a high school diploma experienced wage gains from immigration that ranged from 0.7%–3.4%, depending on education. On the other hand, native-born workers without a high school

Rather than competing for the same jobs, immigrants complement the native-born work force, thereby increasing productivity and wages.

Giovanni Peri



Wage gains from immigration are between thirty and eighty billion per year, and “sharply reducing immigration would be a poorly-targeted and inefficient way to assist low-wage Americans.”

President’s Council of Economic Advisers, 2007



diploma lost 1% of real yearly wages due to immigration.⁶⁷

The 2007 President’s Council of Economic Advisers agrees with the implications of this analysis; they conclude that wage gains from immigration are between thirty and eighty billion dollars per year, and that “sharply reducing immigration would be a poorly-targeted and inefficient way to assist low-wage Americans.”⁶⁸

In a briefing paper and review of the literature from the Economic Policy Institute Shierholz summarizes the consensus among most analysts regarding the impacts of immigration on wages: “there is broad agreement among academic economists that [immigration] has a small, but positive impact on the wages of native-born workers *overall*; although new immigrant workers add to the labor supply, they also consume goods and services, which creates more jobs.”⁶⁹

In Minnesota, economist Raymond Robertson has studied trade volume, outsourcing and immigration and found that none of these has an adverse effect on wages or employment in the state. He suggests that other, more important determinants of changes in wages include technological change and a shift from manufacturing to services.

One segment of the population that may be negatively impacted by increased immigration is the segment comprised of earlier waves of immigrants working in the same job sector as newly-arriving immigrants. A key question is whether older immigrants will be able to advance to higher-paying jobs when faced with competition from new immigrants. The answer to this question depends in part on the resources and training that are available to earlier immigrants and the extent to which employers make career

advancement possible for such workers. In the Economic Policy Institute report cited earlier Shierholz notes that “US-born workers with less than a high school education saw a 0.3% increase in wages...while foreign-born workers with less than a high education saw a relative 3.7% decrease in wages per week.”⁷⁰

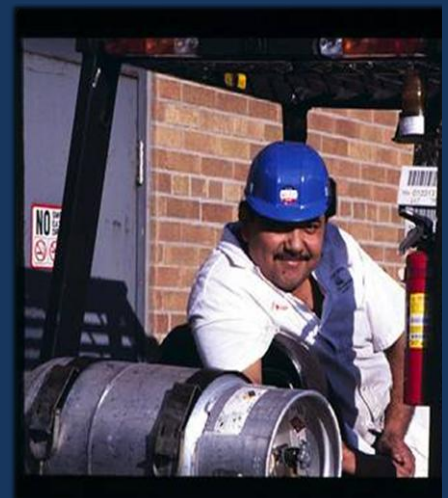
Finally, a recent report suggests that if immigrants were removed from the labor force, the likely consequence would be to lower the size and productivity of the nation’s economy by employing people below their skill levels.⁷¹

Do immigrants take jobs from native-born Americans?

Immigration trends follow the demand for labor. As Rob Paral points out, “There is no compelling evidence that attempting to arbitrarily restrict immigration will reduce unemployment for the native born.”⁷² Note, for example, that large increases in immigration have coincided with economic growth in recent years.⁷³ On average, recent immigrants comprise only 3% of the population in US counties with the highest unemployment rates; at the same time recent immigrants account for a higher share of the population in counties with the lowest unemployment rates.⁷⁴ Other research has documented a consistent negative relationship between Hispanic population growth and unemployment and poverty rates.⁷⁵

An important, but under-studied issue in debates on job competition is that of the ‘substitutability’ of workers, or whether different groups compete for the same jobs or complement one another in the labor force. Kahanec used labor market data to demonstrate that racial/ethnic diversity (including immigrants and US-born minorities) in the US labor force has positive effects on aggregate output.⁷⁶ Other researchers have argued that immigrants bring diverse skills and

If immigrants were removed from the labor force, the likely consequence would be to lower the size and productivity of the nation’s economy by employing people below their skill levels.



“There is no compelling evidence that attempting to arbitrarily restrict immigration will reduce unemployment for the native born.”

Rob Paral

Cost Attributed to Immigrants

experiences to this country and perform different tasks than native-born workers. *Table 3* (shown earlier in this report) highlights differences in occupational patterns. In other words, immigrants fill gaps in the labor force and support the jobs held by other workers. When productivity is enhanced, wages go up.

Some critics of immigration allege that increases in the number of low-skilled immigrants disproportionately impact native-born black workers. However, in the 10 metro areas with the highest share of recent immigrants in the labor force, the unemployment rate for native-born blacks is 1.5 points lower than in 10 metro areas with lowest share of recent immigrants in the labor force.⁷⁷ Furthermore, the unemployment rate for African Americans has remained relatively stable over the past decade, as immigration has risen. Researchers attribute this to other factors, such as job discrimination and high rates of incarceration for young African American males.

Impacts of the economic downturn at federal and state levels

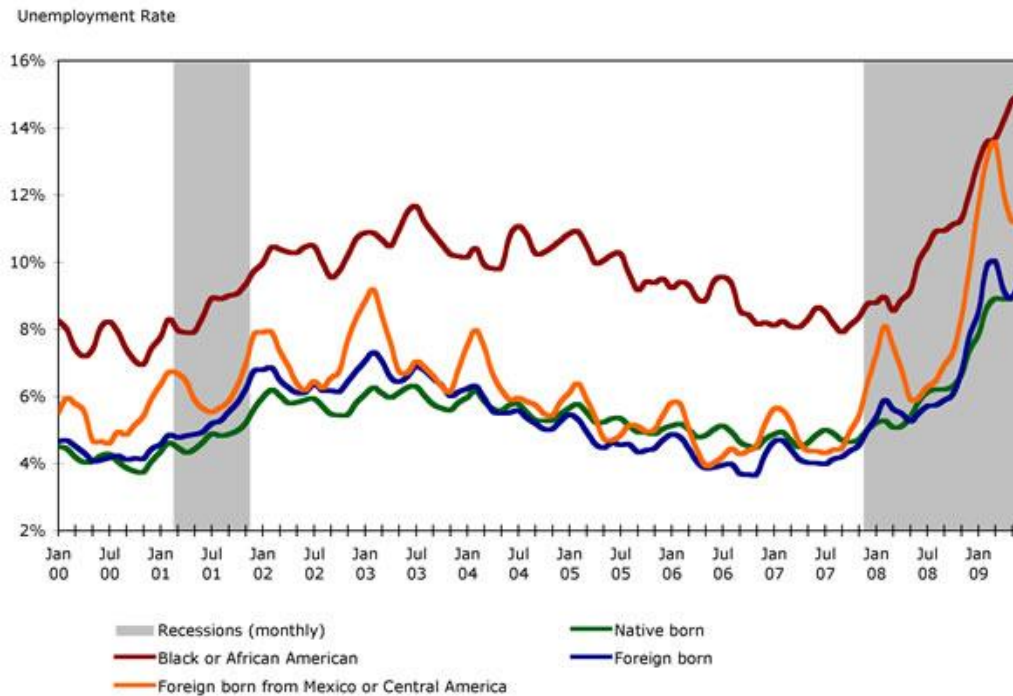
Debates over the economic impacts of immigration become even more contentious during periods of economic contraction. National data indicate that foreign-born workers are more likely than their US-born counterparts to be affected by economic downturns (see *Figure 7*). As noted earlier, a majority of new immigrants move to Minnesota seeking jobs. Fewer may come to the state now that unemployment is 8.4%—a level not seen since the 1980s.⁷⁸

We have only anecdotal evidence of the ways in which the current economic crisis in the United States is affecting both immigration and emigration. In a recent report for the Migration Policy Institute (MPI), Papademetriou notes that several signs point to a reduction in the upward trajectory in the growth of immigration to the US:

Several factors taken together, such as the growing anti-immigrant animus of the past few years; increasingly strict federal, state, and local immigration enforcement policies; a much more robust border enforcement effort; improving economic and political conditions in some migrant-sending countries; and the worsening US economic climate have contributed to a measureable downturn in the historic growth in overall immigration.⁷⁹

If this conjecture proves to be correct, there may be serious negative consequences for both the state and nation, because of the crucial roles that immigrants play in the economy.

Figure 7: Unemployment Rates by Nativity, January 2000 to June 2009 (not seasonally adjusted)

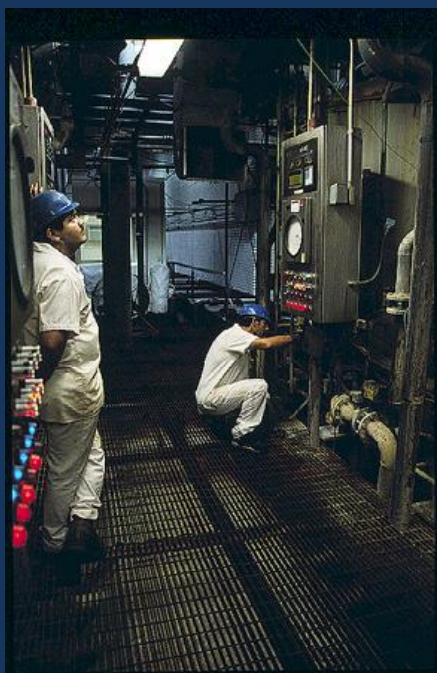


Source: Migration Policy Institute, 2009.

Papademetriou goes on to say that undocumented immigration is most responsive to changes in the US economy, but that large scale return migration is unlikely, unless the current recession becomes even more severe.

A recently-released report by the MPI reveals that foreign-born workers are more closely tied to cyclical changes in the economy than are native-born workers. The recent economic downturn began to affect immigrants earlier, largely because of the housing bust, which led to decreases in employment in the construction industry. In January 2009, foreign-born workers from Mexico and Central America experienced unemployment rates of 13.1%,⁸⁰ compared with 7.6% for native-born workers.⁸¹ While the impact of the recession illustrates a particularly severe example of the link between the economic status of immigrant workers and the business cycle, this trend has been substantiated by an analysis which covered the period from 1990 to 2007.⁸² This relationship exists for immigrant workers of all skill levels and for both documented and undocumented immigrants. Foreign-born workers are more likely to work in cyclical sectors, a pattern which is further indication that these workers

Low-skilled immigrants are particularly vulnerable to job loss and economic hardships imposed by the recession.



It is clear that without new, young workers, certain sectors of the economy will continue to contract.

are not taking jobs, but rather responding to a demand for their participation in the workforce.

Low skilled immigrants are particularly vulnerable to job loss and economic hardships imposed by the recession. We have already enumerated a number of barriers to the integration of immigrant residents—particularly for the millions who live in families in which some members are undocumented. Actions to reduce these barriers are becoming all the more urgent.

It is clear that without new, young workers, certain sectors of the economy will continue to contract. Immigration is responsive to workforce demands—during the current economic downturn, the rate of immigration has slowed. Mexicans comprise the largest group of immigrants to the US, and, according to data from the Mexican census, the number of Mexicans immigrating to the United States dropped by 25% from August 2007 to August 2008.⁸³ In Minnesota, Latino unemployment jumped from 4.7% in 2006 to 7.5% in 2008, according to the most recent figures from the Minnesota Department of Employment and Economic Development.⁸⁴ Immigrant entrepreneurs have been affected as well. Corrie surveyed 24 proprietors of African, Latino, Asian and Native American businesses in 2008 and found that a majority said that their sales were down from the previous year, and that they were pessimistic about the coming year.⁸⁵

Another consequence of the economic downturn has been the demise of nonprofit agencies that serve immigrants and others. According to the Minnesota Council of Nonprofits, close to half of the agencies in the state have experienced

reductions in individual donations, and almost a third have had to lay off staff members. The reduction in these services increases the pressure on public services for all residents of the state—immigrants and non-immigrants alike.

Law enforcement impacts

Since many of the studies that tally costs imposed by undocumented immigrants emphasize law enforcement expenses, it would be easy to believe that a large proportion of undocumented immigrants in the US are engaged in criminal activity and, in fact, many Americans share this mistaken view. Almost three quarters of respondents to the national 2000 General Social Survey believed that immigration was linked in a causal way to increased crime.⁸⁶ Similarly, a 2005 report by the Minnesota Department of Administration states that, “persons in illegal households [...] account for almost 20% of those in federal prison and others processed by the federal courts.”⁸⁷ However, because all immigration violations are prosecuted by the federal system, immigrants who commit minor offenses or who lack legal status are counted in the federal prison population.⁸⁸

In fact, immigrants are much less likely to commit crimes than native-born citizens. In 2000 the rate of incarceration for native-born men age 18–39 was five times higher than the rate for immigrant men of the same age.⁸⁹

Many states and localities have assumed a role as enforcers of immigration policy, collaborating with Immigration and Customs Enforcement through what are known as “287(g)” agreements. This role undermines the credibility of government officials and police and retards the integration of immigrants. In surveying law enforcement leaders from around the

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If undocumented immigrants were removed from Minnesota's economy, the state would lose over 24,000 permanent jobs and \$1.2 billion in personal income.

The Perryman Group



US, the Police Foundation found that many of them recognized that having to enforce federal immigration laws subverts their efforts to build trust in immigrant communities. 287(g) contracts have the additional adverse consequence of weakening community policing strategies because they draw time and resources away from dealing with other local issues,⁹⁰ and also make many immigrants reluctant to come forward if they are witnesses to or victims of crime,⁹¹ and less likely to access needed services.

Do undocumented immigrants impose more costs than legal immigrants?

It is impossible to account for all of the spending and tax payments coming from undocumented immigrants, so this is a difficult question to answer, though many studies in favor of more restrictive policies will respond in the affirmative. We have already noted that a large share of undocumented immigrants pay taxes and help subsidize public services from which they will never benefit. The Perryman Group, an economic analysis firm based in Texas, estimated that if undocumented immigrants were removed from Minnesota's economy, the state would lose over 24,000 permanent jobs and \$1.2 billion in personal income.⁹² This is a long-term estimate and it assumes that the economy would have had time to adjust to the changes.

Undocumented immigration certainly has associated costs, but it is clear that immigrants, regardless of their legal status, are an integral part of Minnesota's labor force.

Passing comprehensive immigration reform at the federal level would have significant benefits for the nation and the state. As we have shown earlier, unauthorized workers are crucial to a number of Minnesota industries, yet they face significant barriers

to social and economic integration. Lack of legal status precludes full membership in the community and promotes the view that these workers are expendable. As such, they are vulnerable to exploitation by employers and authorities. From an economic perspective, undocumented immigrants do not see their incomes increase over time, as legal workers do. Those who are paid under the table may not pay payroll or income taxes—important sources of revenue for the government. In other words, legal residents earn more and spend more.

The impending national census in 2010 presents an important opportunity to analyze more current data on the characteristics of immigrants and to see how they have fared since 2000.



RECOMMENDATIONS FOR FUTURE RESEARCH

The impending national census in 2010 presents an important opportunity to analyze more current data on the characteristics of immigrants, and to see how they have fared since 2000, and in the aftermath of the current recession. Researchers will be able to examine how wages, consumer spending and employment patterns have changed in recent years. Another important indicator for consideration will be the degree to which Minnesota's immigrants have assimilated, relative to the rest of the country. Minnesota's large refugee population faces different barriers to integration than do other immigrant groups. The census bureau will release the first files by April 1, 2011.

Appendix A presents a summary of state reports on the economic impacts of immigration. Of these, several ideas would be worth examining in Minnesota. First, since the IRS does not ask questions on the immigration status of taxpayers, it is impossible to measure directly the tax contributions of documented or undocumented immigrants. Other statewide studies have developed tools to circumvent this issue, such as a model used by the non-partisan Institute on Taxation and Economic Policy (ITEP). That allows researchers to estimate the contributions of taxpayers at various income levels. State reports on the fiscal impacts of immigration in Florida and Oregon have employed this model.

Second, a model, developed by the Minnesota IMPLAN Group (MIG), has been used to estimate the direct, indirect, and induced effects on the economy if immigrants were removed from the picture as workers and consumers. The IMPLAN method uses an Input/Output model to demonstrate how

circumstances in one economic sector multiply through other sectors, and the resulting aggregate effect on the economy in question. This model may be able to demonstrate how certain industries that are able to thrive in Minnesota by employing large shares of immigrants help keep prices low for consumers in other industries throughout the state. Researchers have used this model to estimate economic impacts in Arizona, Iowa, and Nebraska.

Since educational attainment and relevant job training are important determinants of immigrants' lifetime earnings and, by extension, economic contributions, a more detailed analysis of the sectors and industries employing immigrants would help in determining what sorts of workforce training and education would be most effective.

Another dimension of analysis that would aid in estimating immigrants' fiscal impacts would include examining changing land values in different Minnesota communities to evaluate how an influx of immigrants in a shrinking town affects real estate prices, for example.

As we have emphasized in this report, estimates of fiscal impacts vary greatly, depending upon the assumptions that one makes about the characteristics of future immigrants and how their earnings will change over time, as well as assumptions about economic conditions and future taxes and expenditures that are used to develop estimates of tax payments and benefits receipts for individuals by visa status, age, education and time in the United States. Raymond Robertson, an economist at Macalester College, recommends testing a range of alternative assumptions, with correspondingly linked estimates of likely outcomes. This is a strategy that should be employed in Minnesota.

CONCLUSIONS

We have shown in this report that the time period that is selected to estimate the net fiscal impact of immigration greatly affects the outcome. Immigrants are most 'costly' when they first arrive, or—like US-born residents—when they are in school or retire. Analyses that focus exclusively on short-term costs greatly underestimate the fiscal benefits and the fact that over the course of their lifetimes, immigrants provide a net benefit to state and national economies. Unlike native-born Americans, who are aging rapidly and creating what some have called a 'silver tsunami,' immigrants are generally in their prime working years when they come to the United States, thus providing a crucial infusion to the work force.

Furthermore, US-born residents have either too much or too little education to meet some of the most urgent work force needs. By that we mean that increases in their high school and college graduation rates produce young adults who are understandably reluctant to take low wage, low skill jobs—employment categories that the Bureau of Labor Statistics projects will increase dramatically in the next ten years; at the same time, the US doesn't produce enough workers with advanced degrees to fill marked shortages of health care professionals, engineers and high tech workers. At both ends of the spectrum immigrants fill the gap. In fact, the question that the state of Minnesota and the nation should be addressing is what will be done if economic conditions and harsh immigration policies further reduce the number of foreign-born workers. As a number of researchers have demonstrated, the potential consequences are dire indeed.

A common refrain in popular rhetoric about undocumented immigrants is to ask "why don't they get in line" to adjust their legal status. The answer is straight forward: *there is no line to get into*. Each year an estimated 500,000 undocumented immigrants enter the United States. The vast majority of the adults secure jobs. In spite of this evidence of labor supply and demand, the US Citizenship and Immigration Service issues only 5,000 employment-based visas annually to low-skilled workers. This is 1% of the estimated number of immigrants who enter the US without authorization. In other words, the odds of successfully obtaining a 'green card' with authorization to work are one in a hundred for low-skilled workers. It is also worth noting that, in spite of increased demand for foreign-born workers and the loosening of restrictions on cross-border trade that resulted from the North American Free Trade Agreement (NAFTA), there has been no corresponding increase in work visas. Migration, exports and imports have all

increased significantly since the passage of NAFTA, but the lack of a commensurate increase in work visas has produced the current crisis of 'illegal immigration.'

Various researchers have estimated the economic benefits of comprehensive immigration reform. Pastor et al calculated the economic benefits of legalization of undocumented residents in California⁹³ and concluded that the removal of barriers to access to education, self-employment, job training and English language classes would raise wages and thereby bring in \$310 million dollars in income taxes to the state, and \$1.4 and \$2.2 billion in federal income and social security taxes, as well as additional local and federal revenues associated with increased consumer spending. At the national level Hinojosa-Ojeda estimated the economic ramifications of three hypothetical immigration policies: legalization of undocumented immigrants, a guest worker program without opportunities for legalization and mass deportation of undocumented immigrants.⁹⁴ He calculated that comprehensive immigration reform with legalization would increase the US GDP by \$1.5 trillion dollars over ten years.

One neglected aspect of the debates about the large number of immigrants who cross the US-Mexico border is the extent to which our two economies are intertwined, and the ways in which this fosters migration. Migrants move back and forth, and when they return to their native countries they increase the demand for American products, thereby increasing US exports. The influx of workers also increases local demand for goods and services, which has a multiplier effect that leads to increased investment.⁹⁵ Fully 85% of Mexican exports go to the United States,⁹⁶ and half of Mexican foreign direct investment comes from US-based investors. In the words of a Brookings Institute economist, the financial systems of the two countries are highly integrated, and turmoil in the US financial industries directly impacts Mexico. We raise this point in the present report to underscore the fact that comprehensive immigration reform that benefits the United States must be coordinated with an examination of US trade policies and their impacts on neighboring countries.

Another important limitation of some analyses of the fiscal contributions of immigrants is the absence of estimates of the ways in which employment serves as a mechanism for job creation. As industries expand and hire new workers, jobs are created to maintain this larger work force and to supply its needs for goods and services.

Conclusions

Immigrants' economic contributions have the potential to increase over time as they gain experience and earn higher wages, and such increases translate into needed tax payments and consumer spending. However, in order to realize these benefits, employers and state officials must ensure that the most vulnerable workers have sufficient opportunities for advancement and relevant job training and education programs. Analyses by the Urban Institute underscore this point by estimating the potential impact of training and education programs for Minnesota adults up to age 49 who do not have a high school degree. In their models programs that reached half of adults without a diploma would result in substantial poverty reduction, increases in employment, increased wages and a significant increase in tax revenues to the state government.⁹⁷

Finally, although the focus of this report has been fiscal impacts, there are a number of less tangible, but equally important benefits of immigration. Diversity in the labor force, in our communities, and in our schools brings energy, ideas, and skills that spark innovation and that will help Minnesotans prepare to live in a globalized world.

APPENDIX A: SUMMARY OF CONCLUSIONS FOUND IN STATEWIDE ANALYSES ESTIMATING FISCAL IMPACTS OF IMMIGRANTS

STATE	STUDY CONCLUSIONS	STUDY TITLE & AUTHORS
ARIZONA	<p>Immigrant workers contribute a total of \$2.4 billion in state tax revenue, while their estimated fiscal cost (education, health care and law enforcement) totals \$1.4 billion.</p> <p>The net fiscal impact of immigrants in AZ in 2004 was positive by an estimated \$940 million.</p> <p>In 2004 the total economic output of immigrant workers was \$15 billion for naturalized citizens and \$29 billion for non-citizens.</p>	<p>Judith Gans, <i>Immigrants in Arizona: Fiscal and Economic Impacts</i>, Tucson, AZ: Udall Center for Studies in Public Policy, University of Arizona, 2007.</p>
ARKANSAS	<p>Immigrant spending represented a \$2.9 billion positive impact on the state.</p> <p>Without immigrants in the labor force, the manufacturing industry in Arkansas would have contracted by about \$1.4 billion.</p>	<p>Randy Capps, et al., <i>A Profile of Immigrants in Arkansas: Executive Summary</i>, Washington, DC: Urban Institute, April 2007.</p>
CALIFORNIA	<p>Immigrants in California pay approximately \$30 billion in federal taxes, \$5.2 billion in state income taxes and \$4.6 billion in sales tax per year.</p> <p>In California, the average immigrant household's net annual contribution to Social Security is about \$2,679, which exceeds the net amount of paid per year by the average US-born household by more than \$500.</p>	<p>The California Immigrant Policy Center, <i>Looking Forward: Immigrant Contributions to the Golden State/A Compilation of Recent Research Findings on Immigrants in California</i>, Sacramento, CA, January 2008.</p>
FLORIDA	<p>From 2002–2004, immigrant workers paid, on average, \$10.5 billion in federal taxes and \$4.5 billion in state taxes, annually.</p> <p>Each year, immigrants in the state contributed a net sum of \$1,500 when comparing taxes paid to what they received in terms of public benefits and transfer payments.</p>	<p>Emily Eisenhauer, et al., <i>Immigrants in Florida: Characteristics and Contributions</i>, Miami, FL: Research Institute for Social and Economic Policy, Florida International University, May 2007.</p>

STATE	STUDY CONCLUSIONS	STUDY TITLE & AUTHORS
IOWA	<p>Undocumented immigrants pay \$40 billion to \$62 billion in state taxes per year.</p> <p>Undocumented immigrants who work on the books pay, along with their employers, \$50 million to \$77.8 million in Social Security and Medicare Taxes.</p> <p>Undocumented immigrants are not a net fiscal drain on state resources; in some cases they are subsidizing services from which they will never benefit.</p>	<p>Beth Pearson and Michael F. Sheehan, <i>Undocumented Immigrants in Iowa: Estimated Tax Contributions and Fiscal Impact</i>, Mount Vernon, IA: The Iowa Policy Project, October 2007.</p>
NEBRASKA	<p>In 2006, immigrant spending fueled \$1.6 billion in total production in the state, which generated between 11,874 and 12,121 jobs.</p> <p>Immigrants contributed a total of \$154 million to state revenues in the form of property, income, sales, and gasoline taxes.</p> <p>Immigrants accounted for \$1,455 in per capita costs, while the native-born population accounted for \$1,941 in per capita costs.</p> <p>Immigrants pay about 7% more in the aggregate than they use in public services (the native-born population's contributions equal total benefits received).</p>	<p>Christopher S. Decker, <i>Nebraska's Immigrant Population: Economic and Fiscal Impacts</i>, University of Nebraska at Omaha, October 2008.</p>
NEW YORK	<p>Immigrants' contributions to New York's state economy total \$229 billion, or 22.4% of the state's GDP.</p>	<p>Fiscal Policy Institute, <i>Working for a Better Life: A Profile of Immigrants in the New York State Economy</i>, New York, NY: November 2007.</p>
OREGON	<p>Undocumented immigrants pay a total of \$134 million to \$187 million annually when state income, excise, and property taxes are considered along with federal Social Security and Medicare taxes.</p> <p>State employers pay an estimated \$97 million to \$136 million in taxes per year on behalf of undocumented workers.</p>	<p>Oregon Center for Public Policy, <i>Undocumented Workers Are Taxpayers, Too</i>, Silverton, OR: April 10, 2007.</p>

STATE	STUDY CONCLUSIONS	STUDY TITLE & AUTHORS
TEXAS	<p>Losing the \$1.4 million undocumented immigrants present in Texas 2005 would have resulted in a \$17.7 billion decrease in the gross state product.</p> <p>Undocumented immigrants contribute about \$1.58 billion to the state's revenues, while the amount they receive in state services totals \$1.16 billion.</p>	<p>Carole Keeton Strayhorn, Texas Comptroller, <i>Special Report: Undocumented Immigrants in Texas: A Financial Analysis of the Impact to the State Budget and Economy</i>, Austin, TX: December 2006.</p>
METROPOLITAN AREAS		
CHICAGO	<p>Undocumented immigrants spent \$2.89 billion in the Chicago metropolitan area in 2001, which stimulated a \$2.56 billion increase in local spending. This \$5.45 billion in spending helped sustain 31,908 in the local economy.</p>	<p>Chirag Mehta, Nik Theodore, Iliana Mora & Jennifer Wade, <i>Chicago's Undocumented Immigrants: An Analysis of Wages, Working Conditions, and Economic Contributions</i>, Chicago, IL: Center for Urban Economic Development, University of Illinois at Chicago, February 2002.</p>
WASHINGTON, DC	<p>Immigrant households paid 17.7% (\$9.8 billion) of the total taxes paid (\$55.2 billion) by residents in the metropolitan area. This share is roughly equal to the percentage of immigrant residents in the area (17.4%).</p>	<p>Randy Capps, et al., <i>Civic Contributions: Taxes Paid by Immigrants in the Washington, DC, Metropolitan Area</i>, Washington, DC: Urban Institute, May 2006.</p>

APPENDIX B: SUMMARY OF RESEARCH ANALYZING IMMIGRATION'S IMPACT ON WAGES

Author	Assumptions/Model	Conclusions	Sources
Borjas	<p>Immigrants and native-born workers are perfectly substitutable in the labor market.</p> <p>Immigrants represent an increase in the labor market but physical capital does not respond to such changes and remains fixed over time.</p> <p>Wages can only be examined at the national level; cross-city comparisons may mask the effects of labor mobility.</p>	<p>During the period from 1980–2000, immigration reduced the average American’s annual earnings by 3.7%.</p> <p>Immigration reduced the wages of native-born workers without a high school diploma by 7.4%.</p> <p>Mexican immigration is the cause for almost all of the adverse impact on the wages of low-skilled workers; without the influx in immigration from Mexico, native-born wages would have declined by 1.4%, on average. The reduction in wages occurs whether the immigrants are legal or illegal—it is the presence of more workers that drives down wages.</p>	<p>George J. Borjas, “The Labor Demand Curve is Downward Sloping: Reexamining the Impact of Immigration on the Labor Market,” <i>Quarterly Journal of Economics</i> 118(4), November 2003.</p>
Card	<p>Immigrants and natives are perfect substitutes within the same skill groups.</p>	<p>Card finds a weak statistical relationship between immigration and the wages low-skilled native-born workers.</p> <p>Immigration did play a role, albeit a minor one, in rising wage inequality from 1980–2000; Card finds that immigration accounted for 5% of the wage inequality between high-skilled and low-skilled workers.</p>	<p>David Card, “Is the New Immigration Really So Bad?” NBER Working Paper 11547, January 2005.</p>

Author	Assumptions/Model	Conclusions	Sources
Peri	Immigrants are not substitutes for native-born workers. Natives only compete with a small subset of foreign-born workers within each educational group. Immigrants offer complementary skills and fill different roles in the labor force. This allows for increased productivity and ultimately, higher wages. These dynamics also drive investment by encouraging entrepreneurs to organize workers in new ways.	During the period from 1990–2004, the 90% of native-born workers with a high school diploma saw their wages increase by 0.7%–3.4%, depending on their highest level of education. Immigration played a small role in reducing wages of low-skilled workers: those workers without a high school diploma saw their real annual wages decline by 1.1% because of immigration.	Giovanni Peri, “Rethinking the Effects of Immigration on Wages: New Data and Analysis from 1990–2004,” <i>Immigration Policy In Focus</i> , Washington, DC: Immigration Policy Center, American Immigrant Law Foundation, October 2006.

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