



We consider a host of factors that may be keeping Latino wages relatively low in our region. Key among these factors is education.

Getting to the Bottom of Texas' Latino Pay Gap

By Pia Orrenius, Madeline Zavodny and Emily Kerr

Among Latinos, the U.S. born make up a majority in Texas but a minority in the rest of the country.¹ Because natives typically earn more than immigrants, a state with a large, established population of U.S.-born Latinos might be expected to have relatively high Latino wages.

That's not the case in Texas. The Latino wage gap—the difference between the wages of Latinos and non-Hispanic whites—is significantly larger in Texas than in the rest of the nation.

What drives the gap in Texas? To find out, we look at Latinos' recent contributions to the state's labor force and trends in their wages in the state and nation. Then we consider a host of factors that may be keeping Latino wages relatively low in our region.

Key among these factors is education. Texas Latinos have fewer years of schooling than non-Hispanic whites in Texas and Latinos living in other parts of the U.S. This poses a critical challenge as the Texas economy moves forward—improving the educational attainment of an increasingly significant segment of its population.

The Latino Workforce

Texas is home to 8.9 million Latinos—second only to California among the states. Texas' Latino population more than doubled between 1990 and 2008, increasing faster than any other major demographic group.

This rapid growth partly reflects international and domestic migration. The newcomers are largely attracted by Texas' strong economy. State employment has increased an average of 2.3 percent a year since 1990, about a percentage point faster than in the nation.² A relatively low cost of living is another pull factor. Housing costs are much lower in Texas than in other large states, both in absolute terms and relative to income.

A high fertility rate also contributes to the growing Latino population. In 1996, José replaced Michael and Christopher as

FIRST OF TWO PARTS

Texas' most popular male baby name, and it has remained on top ever since, according to the Social Security Administration. Texas stands as the only state to have a predominantly Hispanic baby name ranked No. 1; no Latino baby names made it into the U.S. top 25 in 2008.³

The Latino population's increase has transformed Texas' labor force and led to faster economic growth. Latinos accounted for 76 percent of the state's labor force growth between 1994 and 2008.

We can look at Latino wages and the makeup of the labor force through the Census Bureau's Current Population Survey (CPS), a large-scale monthly poll of about 50,000 U.S. households.⁴ It yields a wealth of individual-level data on wages, employment, household composition and demographic characteristics. Individuals identify themselves as being of Hispanic origin or descent. The CPS has included a question on country of birth since 1994.

The Latino share of the Texas labor force rose from 27 percent in 1994 to more than 38 percent in 2009 (*Chart 1*). In the rest of the country, Latinos were 8 percent of the labor force in 1994 and 12 percent in 2009.

Native Latinos accounted for slightly more than half the increase in Texas, rising from 17 percent of the Texas labor force in 1994 to 23 percent in 2009. Foreign-born Latinos increased from 10 percent to 15 percent.⁵ At the national level, most of the growth in Latino labor force share came from immigrants.

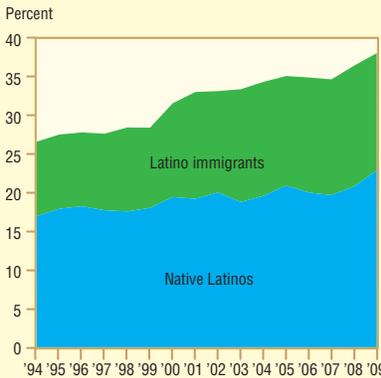
The Latino Wage Gap

Texas Latinos' median hourly earnings were \$11.54 in 2007–09, about 64 percent of what the state's non-Hispanic whites earned (*Table 1*).⁶ Latinos in the rest of the U.S. did better, earning \$12.42, or about 71 percent of non-Hispanic whites' earnings.

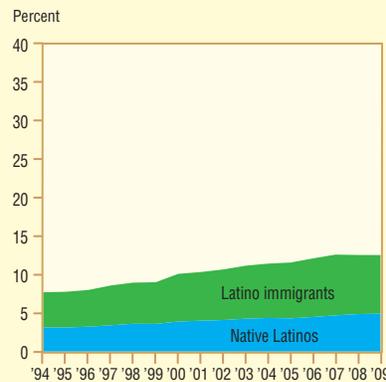
*Native-born Latinos
earn 17 percent less
per hour in Texas than
in other states—
\$12.46 versus
\$15.10.*

Chart 1
**Latino Share of Labor Force Larger
in Texas than U.S.**

A. Texas



B. United States



NOTE: U.S. figures exclude Texas.
SOURCE: Authors' calculations using 1994–2009 Current Population Survey data.

Median weekly earnings showed a similar pattern. Latinos received \$468.16 a week in Texas, or about 60 percent of the non-Hispanic white median. Nationally, their pay was higher at \$498.42 a week, or about 68 percent of non-Hispanic whites' earnings.

By both measures, Latinos have lower wages in Texas than in the rest of the country—in absolute terms and relative to non-Hispanic whites. Comparing relative wages provides a way of controlling for state-specific factors, such as Texas' lower cost of living.

Why do Texas Latinos earn less? For starters, they're younger than the state's non-Hispanic whites, which suggests fewer years of work experience. Texas Latinos age 25 and over also have considerably less education. About 40 percent didn't graduate from high school, compared with just 5 percent of Texas non-Hispanic whites. Eleven percent earned college degrees, well below the 38 percent of non-Hispanic whites.

Texas Latinos are less likely to work. Two-thirds are employed, compared with 74 percent of the state's non-Hispanic whites. This stems largely from women's decisions about working outside the home. Texas' Latino women are about 13 percentage points less likely than non-Hispanic white women to be employed.

Texas' high income inequality also plays a role.⁷ The disparity between high- and low-wage earners exacerbates Texas' Latino wage gap when compared with states that have more uniform earnings distributions.

These comparisons help explain the in-state earnings differences, but what about the Latino wage gap between Texas and the rest of the nation? The state's non-Hispanic whites contribute to it because they have higher earnings and more years of education than non-Hispanic whites in the rest of the U.S. At the same time, Texas Latinos differ from Hispanics elsewhere in important ways that depress their relative earnings.

Native-born Latinos earn 17 percent less per hour in Texas than in other states—\$12.46 versus \$15.10 (*Table 2*). Foreign-born Latinos in Texas also earn less, but the difference is only 9 percent—\$10.28 versus \$11.25. Texas tops the nation in share of native born in the Latino population. When combined with the pay disparities, this suggests the native born are largely behind Texas Latinos' wider wage gap.

On the upside, native-born Texas Latinos are more likely to work than their national counterparts. However, this factor is

Table 1
Texas Latinos Differ from Non-Hispanic Whites and Other Latinos

	Latinos		Non-Hispanic whites	
	Texas	Rest of U.S.	Texas	Rest of U.S.
Hourly earnings (\$)	11.54	12.42	17.90	17.56
Weekly earnings (\$)	468.16	498.42	776.27	733.78
Age	36	35	40	40
Female (%)	49	47	50	50
Immigrant (%)	41	58	3	4
Education				
Less than high school (%)	40	36	5	6
High school (%)	29	30	26	30
Some college (%)	20	20	31	29
College (%)	11	14	38	35
Employment status				
Employed (%)	67	68	74	73
Unemployed (%)	5	8	4	5
Not in labor force (%)	29	26	24	23

NOTES: Shown are weighted sample means of monthly data from 2007–09 for individuals age 16 to 64. Education variables include only individuals age 25 and older. Earnings are medians and are deflated using the consumer price index for urban workers (June 2009 = 100).

SOURCE: Authors' calculations using 2007–09 Current Population Survey data.

Table 2
Whether Foreign or Native Born, Latinos Earn Less in Texas

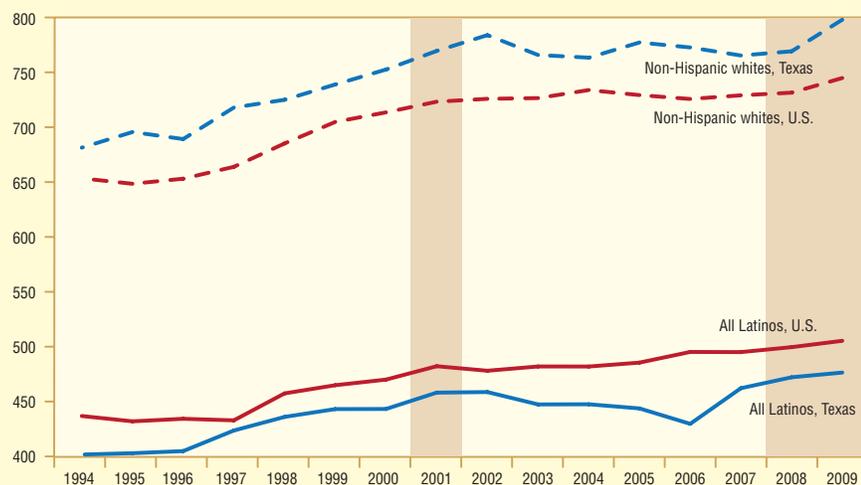
	Foreign-born Latinos		Native-born Latinos	
	Texas	Rest of U.S.	Texas	Rest of U.S.
Hourly earnings (\$)	10.28	11.25	12.46	15.10
Weekly earnings (\$)	413.01	445.08	508.25	614.37
Age	37	37	35	32
Female (%)	45	45	51	51
Education				
Less than high school (%)	60	48	23	14
High school (%)	23	28	34	33
Some college (%)	10	13	28	33
College (%)	8	11	14	20
Employment status				
Employed (%)	68	71	67	64
Unemployed (%)	5	7	6	9
Not in labor force (%)	29	24	29	29
Citizen (%)	22	27	–	–
Born in Mexico (%)	85	62	–	–
Born in C. America (%)	10	15	–	–

NOTES: Shown are weighted sample means of monthly data from 2007–09 for individuals age 16 to 64. Education variables include only individuals age 25 and older. Earnings are medians and are deflated using the consumer price index for urban workers (June 2009 = 100).

SOURCE: Authors' calculations using 2007–09 Current Population Survey data.

Chart 2
Latino Wages Rise over Time

Median weekly earnings (2009 dollars)



NOTE: Shaded areas represent U.S. recessions.

SOURCE: Authors' calculations using 1994–2009 Current Population Survey data.

more than offset by educational differences. In Texas, 23 percent of native-born Latinos age 25 to 64 are high school dropouts, compared with 14 percent in the rest of the nation. And 14 percent have college degrees, well below the 20 percent of native-born Latinos elsewhere.

Texas' Latino immigrants are also very different from their U.S. counterparts. Only 22 percent in Texas are U.S. citizens, com-

pared with 27 percent elsewhere. Perhaps more telling, 85 percent in Texas were born in Mexico, compared with 62 percent in the rest of the country. Research shows that Mexican immigrants tend to have lower skill levels than Latino immigrants from other countries. They're also more likely to lack legal status—the case for more than half of Mexican-born Hispanics in the U.S.⁸

Other factors may contribute to Texas'

wide Latino wage gap. One is that a significant number of the state's Latinos live along the Texas–Mexico border—about 23 percent, or roughly 2 million people. Hispanics in these border areas earn lower wages than Hispanics in the state's interior, depressing average earnings for Latinos in the state.⁹

Research has found that Latino immigrants tend to earn less than native-born workers even at similar education levels. They often lack English fluency, institutional knowledge and social capital. For some, illegal immigrant status is a barrier to better-paying jobs.

The lower wages might also be policy related. Some states with large Latino populations set their minimum wages above the federal standard. For example, California raised its minimum from \$5.15 in 1997 to \$7.50 in 2007, while the federal minimum held steady during this 10-year period at \$5.15. By contrast, Texas tied its minimum wage to the federal rate. This put low-wage Texans at a disadvantage in cross-state comparisons.

It should be noted that Texas' lower cost of living makes up for a portion of the Latino earnings deficit relative to Latinos elsewhere, although it does nothing to mitigate the in-state wage gap relative to non-Hispanic whites.¹⁰ According to the American Chamber of Commerce Research Association's state survey, Texas had the fourth-lowest cost of living in 2009, trailing Oklahoma, Tennessee and Kentucky.

An important factor in the lower cost of living is housing affordability. In 2008, the median value of an owner-occupied home in Texas was \$126,800. By comparison, median values were \$467,000 in California, \$318,900 in New York and \$218,700 in Florida.¹¹

In Texas metropolitan areas, 70 to 75 percent of homes sold are considered affordable for a family with a median household income.¹² Other major Latino immigrant destinations are far behind—New York at 21 percent, Los Angeles at 42 percent and Miami at 53 percent.

The Wage Gap over Time

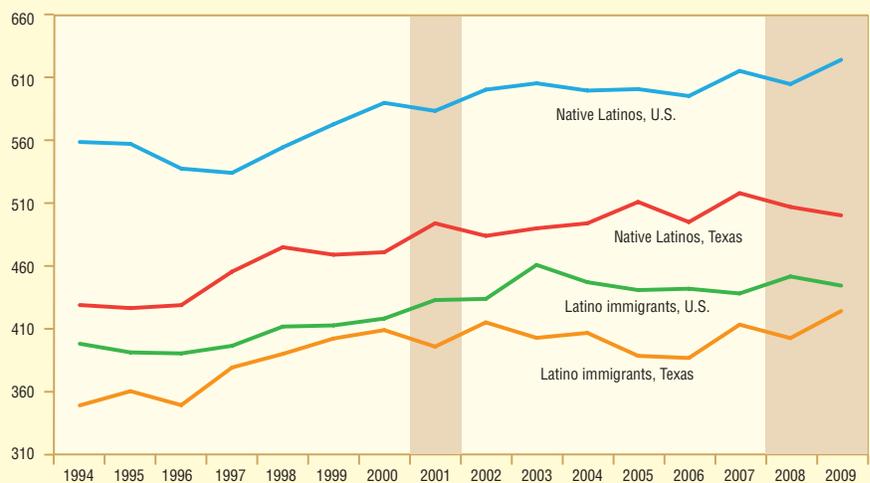
The Latino wage gap has persisted but hasn't gotten worse. Latino and non-Hispanic white workers saw real weekly earnings rise at roughly the same pace from 1994 to 2009 in the U.S. and Texas (*Chart 2*).

The bulk of Latino wage growth, particularly in Texas, occurred during the booming 1990s. Immigration was high at the time, making the wage increases even

By 2030, Latinos are expected to make up the majority of the Texas population, a prospect that increases the importance of understanding the social and economic factors behind the wage gap.

Chart 3
Wages Rising for Latino Natives and Immigrants

Median weekly earnings of Latinos (2009 dollars)



NOTE: Shaded areas represent U.S. recessions.

SOURCE: Authors' calculations using 1994–2009 Current Population Survey data.

more impressive. Newcomers typically affect wages in two ways—by increasing labor market competition and by diluting the average wage.

Hispanic wage growth stalled as a result of the 2001 recession. Over the next four years, real wages fell in Texas, while they were flat in the rest of the country. Texas had participated in the high-tech boom, and the 2001 bust hit the state hard. As a result, the recession was more severe in Texas and recovery was slower.¹³ While few Latinos may have worked in the high-tech sector itself, they benefited when the overall Texas economy was up and suffered when it was down.

Recent movements have been more favorable. Texas Latinos' wages recovered in 2007–09, moving back toward the U.S. trend.

Unemployment rates confirm that labor market conditions have improved for Latinos over the past 15 years. The fraction of the Texas Latino labor force actively seeking work but not employed was more than 8 percent in 1994, but it had fallen to 5 percent by 2007–09, converging to the rate for non-Hispanic white workers, according to CPS data.

Both Latino natives and immigrants experienced rising wages in 1994–2009 (Chart 3). The disparity between Texas and U.S. Latino wages is much larger for natives than for immigrants. In fact, wages for foreign-born Latinos in Texas and the U.S. almost converged in 2009, while wages for natives diverged further.

Latino wage performance can also be

judged relative to other workers' pay. Expressed as a share of non-Hispanic whites' earnings, wages of Latino workers were essentially flat from 1994 to 2009, both in Texas and the rest of the U.S. (Chart 4).

The Latino wage gap vis-à-vis non-Hispanic whites hasn't closed, but it hasn't worsened either. This can be regarded as good news because several factors could have led to a widening during the 1990s, a period of massive immigration of less-educated Latinos, or afterward, a time marked by a general rise in U.S. income inequality.

The enduring gap between the relative wages of native-born Texas Latinos and their U.S. counterparts remains disconcerting. For at least 15 years, native Latinos' relative wages have been 20 percentage points lower in Texas than in the rest of the country.

Differences across groups of U.S.-born workers are much harder to explain than native-immigrant disparities. After all, measured against non-Hispanic whites, the Latino second generation is no different in terms of legal status. All children born in the U.S. are automatically citizens. We also see no differences in language acquisition because second-generation Latinos are overwhelmingly fluent English speakers. What hasn't equalized is education. The big differences in years of schooling translate into big disparities in earnings.

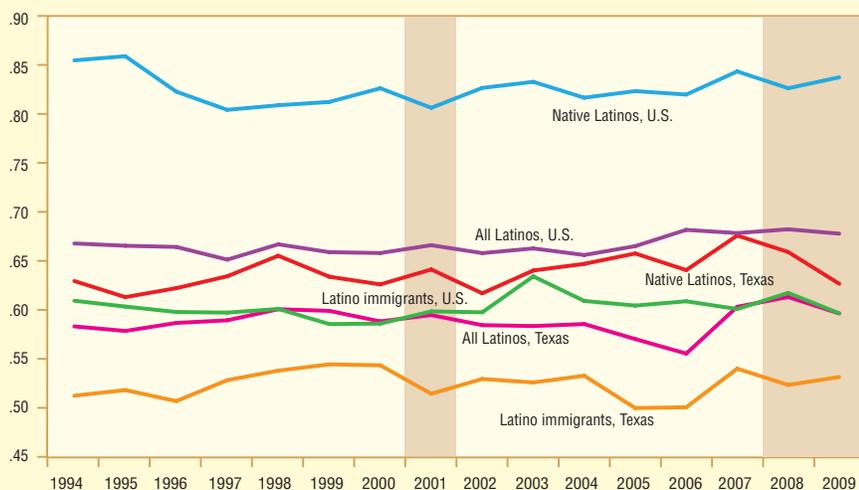
Closing the Gap

Latinos represent the state's fastest-growing demographic group and 38 percent

Chart 4

Latino Wage Gap Persists but Doesn't Widen

Latinos' median weekly earnings, as a share of non-Hispanic whites' earnings



NOTE: Shaded areas represent U.S. recessions.

SOURCE: Authors' calculations using 1994-2009 Current Population Survey data.

of its labor force. By 2030, they're expected to make up a majority of the state's population, a prospect that increases the importance of understanding the social and economic factors behind the Latino wage gap.¹⁴

Education deficits are clearly a key reason Texas' Latinos haven't narrowed the wage gap with non-Hispanic whites. Even so, it's puzzling why native-born Latinos have a much lower average educational attainment in Texas than in other states.

National research on Latino educational outcomes offers a few clues about what may be inhibiting education. Most important, schooling may be interrupted by the need to work or take care of family responsibilities. Latinos tend to have higher poverty rates, lower incomes and larger families than non-Hispanic whites.¹⁵

Latinos are also more likely to lack health insurance, and sickness or accidents in a family could push students out of school and into work. In a recent Pew Hispanic Center poll, 74 percent of young Latino respondents who had not gone on to college said they left school to help support their families.¹⁶

Young Latinos are also more likely than non-Hispanic whites of similar age to be neither in school nor at work; Latinas in particular are more likely to leave school to raise children.¹⁷

Native-born Latinos are often the children of immigrants. Latino respondents in the Pew survey cited a lack of parental involvement and a poorer knowledge of English

as major reasons Latinos don't perform as well in school as other demographic groups. Respondents also cited no need for further schooling to pursue their chosen line of work.

In Texas, more and better education—specifically, in the areas of degree completion and English fluency—are keys to achieving higher wages among Latino workers. A more diversified immigrant stream would also contribute to this aim. Complementarities among high- and low-skilled migrants suggest this would improve living standards for both groups.

Comprehensive immigration reform in conjunction with higher education would help Latinos access more high-paying occupations. Minimum-wage policies may help raise incomes for low-wage workers who stay on the job but can hurt employment prospects for teenagers and other young and inexperienced workers.

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Notes

¹ Most U.S. surveys ask individuals if they are Hispanic, not Latino. We therefore treat the two as equivalent. However, we note that individuals of Spanish ancestry might identify themselves as Hispanic but usually would not be considered Latinos, while individuals of Brazilian ancestry might not identify themselves as Hispanic but usually would be considered Latino. All Hispanic population data cited in this article are from the Census Bureau.

² Texas employment data come from the Texas Workforce Commission and Bureau of Labor and Statistics, with seasonal adjustments by the Federal Reserve Bank of Dallas.

³ Data are available at www.ssa.gov/OACT/babynames.

⁴ We use the merged outgoing rotation group files of the Census Bureau's Current Population Survey.

⁵ We use the terms foreign born and immigrant interchangeably. We define immigrants as people born abroad who are not U.S. citizens at birth (that is, not born abroad to parents who are U.S. citizens).

⁶ The earnings data are based on median hourly or weekly earnings to avoid the influence of outliers on average wages; at the median, half of all observed wages lie above and half below.

⁷ See "Pulling Apart: A State-by-State Analysis of Income Trends," by Jared Bernstein, Elizabeth McNichol and Karen Lyons, Economic Policy Institute and Center on Budget and Policy Priorities, January 2006.

⁸ See "Mexican Immigrants in the United States, 2008," Pew Hispanic Center Fact Sheet, April 15, 2009.

⁹ See "Differences Between Mexican Migration to the U.S. Border and the Interior," by Pia M. Orrenius, Madeline Zavodny and Leslie Lukens, in *Labor Market Issues Along the U.S.-Mexico Border*, Marie T. Mora and Alberto Dávila, ed., Tucson: University of Arizona Press, 2009.

¹⁰ We use the national Consumer Price Index (CPI) to deflate wages because there is no state-level CPI. A state-level CPI would capture the differential growth in living costs and would be preferable.

¹¹ Values are from the Census Bureau's 2008 American Community Survey and are the most recent available at the state level. Other data suggest home prices have dropped since 2008.

¹² Affordability shares are from the Wells Fargo Housing Opportunity Index, which assumes a family can afford to spend 28 percent of its gross income on housing costs.

¹³ See "Texas in the Most Recent Recession and Recovery," by Mine Yücel, Federal Reserve Bank of Dallas *The Face of Texas: Jobs, People, Business, Change*, October 2005.

¹⁴ See "Population Change in Texas: Implications for Human, Socioeconomic and Natural Resources in the 21st Century," speech by Steve H. Murdock, University of Texas at San Antonio, April 29, 2004, <http://recenter.tamu.edu/speeches/land04Murdock.pdf>.

¹⁵ See "Statistical Portrait of Hispanics in the United States, 2007," Pew Hispanic Center, March 2009.

¹⁶ See "Latinos and Education: Explaining the Attainment Gap," by Mark Hugo Lopez, Pew Hispanic Center, October 2009.

¹⁷ See "The Changing Pathways of Hispanic Youths into Adulthood," by Richard Fry, Pew Hispanic Center, October 2009.