

Texas' Latino Pay Gaps: Taking a Closer Look

By Emily Kerr, Pia Orrenius and Madeline Zavodny

Education explains more than half of the Latino pay gap vis-à-vis non-Hispanic whites in the state and 20 percent of the gap vis-à-vis Latinos outside Texas.

Latino workers in Texas are on the short end of two pay gaps. They earn substantially lower wages than the state's non-Hispanic white workers. They also earn less than Latinos working in other parts of the U.S.

In the fourth quarter 2009 issue of *Southwest Economy*, we identified lower educational attainment and such characteristics as immigrant status and country of origin as key factors in explaining Texas Latinos' relatively low wages. We now want to dig deeper into the Latino pay gaps. Two key questions remain unexplored. First, can we quantify the educational and demographic factors' relative contributions to the Latino wage gaps? Second, what role does occupational choice play in Texas Latinos' lower earnings?

We find that education explains more than half of the Latino pay gap vis-à-vis non-Hispanic whites in the state and 20 percent of the gap vis-à-vis Latinos outside Texas. English fluency and state-level characteristics—such as cost of living, geography, history and institutions—likely account for much of the remaining wage deficit of Latinos in Texas.

We also find that occupational choice explains some of the wage gap within Texas but little to none of the disparities across states.

SECOND OF TWO PARTS

The Gap Within Texas

To get a closer look at the earnings differential within Texas, we rely on the Census Bureau's Current Population Survey (CPS).¹ The data suggest that for the past decade and a half, Latinos' weekly wages have been 46 percent lower on average than wages of non-Hispanic whites.²

This is the unadjusted wage gap for all Latinos (*Table 1*). The gap is wider for Latino immigrants, who earn 58 percent less than non-Hispanic whites. It's narrower for native-born Latinos, who earn 38 percent less. It's puzzling that such substantial wage inequality exists among natives since second-generation or higher Latinos are all U.S. citizens and are largely fluent in English.

Differences in age, sex and marital status have very little impact on the wage gap for Latinos vis-à-vis non-Hispanic whites. After accounting for these demographic characteristics, the wage gap for all Latinos remains largely unchanged at 45 percent.

However, education matters quite a lot,

Table 1

Over Half of Latino Wage Gap in Texas Is Due to Lower Education

	Remaining wage gap for Latinos vis-à-vis non-Hispanic whites in Texas (percent)		
	All Latinos	Native-born Latinos	Immigrant Latinos
Unadjusted	-46	-38	-58
Adjusted for			
Age, sex, marital status	-45	-33	-62
Add education	-20	-15	-30
Add citizenship, immigrant status	-17	n.a.	-24

NOTE: We use the log of real weekly wages among Texas workers ages 20–64 as the dependent variable in least squares regressions on the Latino dummy variable (row 1), adding demographics (row 2), education (row 3) and immigration variables (row 4). In each case, the wage gap is the coefficient on the Latino dummy variable.

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

Table 2

Lower Education Contributes to Cross-State Latino Pay Gap

	Remaining wage gap for Texas Latinos vis-à-vis U.S. Latinos (percent)		
	All Latinos	Native-born Latinos	Immigrant Latinos
Unadjusted	-10	-17	-12
Adjusted for			
Age, sex, marital status	-10	-18	-13
Add education	-8	-13	-9
Add citizenship, immigrant status	-11	n.a.	-9

NOTE: We use the log of real weekly wages among Latino workers ages 20–64 as the dependent variable in least squares regressions on the Texas dummy variable (row 1), adding demographics (row 2), education (row 3) and immigration variables (row 4). In each case, the wage gap is the coefficient on the Texas dummy variable.

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

accounting for more than half of the earnings gap in Texas. Controlling for differences in educational attainment, the wage gap between Latinos and non-Hispanic whites shrinks from 45 percent to 20 percent.

This reflects the wide differences in educational outcomes. Forty percent of Texas Latinos age 25 and older didn't graduate from high school, compared with 5 percent for non-Hispanic whites. Only 11 percent of Latinos earned college degrees, well below the 38 percent for non-Hispanic whites. (*The "On the Record" conversation with Pew Hispanic Center's Richard Fry on page 8 features a wide-ranging discussion of the Latino gap in educational outcomes.*)

Some of the remaining wage differences between Latinos and non-Hispanic whites in Texas can be explained by different attributes of Latino immigrants, such as U.S. citizenship. Factoring in differences in these characteristics further shrinks the gap in overall Texas Latinos' earnings to 17 percent. Accounting for the fact that many Latino immigrants are not citizens leaves an adjusted wage gap of 24 percent for foreign-born Latinos. The larger immigrant wage gap, as compared with the native Latino wage gap, is most likely due to a lack of English fluency, which we cannot control for in the comparison because this variable is not included in the CPS data.

The Gap With the U.S.

We look next at the wage gap between Latinos in Texas and the rest of the U.S., starting with the native-born. They constitute the majority of Latinos in Texas but earn 17 percent less than native Latinos in the rest of the U.S. (*Table 2*).

As with the in-state wage gap, differences in age, sex and marital status are largely irrelevant. Lower educational attainment in

Texas is a contributing factor, but the wage gap only shrinks to 13 percent when we control for differences in schooling.

For Texas' Latino immigrants, the unadjusted wage gap is 12 percent. Once again, basic demographic characteristics play a negligible role. The impact of education is comparable to native-born Latinos, explaining less than a third of the wage differential between foreign-born Latinos in Texas and other states. After controlling for age, sex, marital status, education and citizenship, the wage deficit among Latino immigrants in Texas shrinks to 9 percent. Among all Latinos, the adjusted cross-state wage gap is 11 percent. Adjusting for differences in immigrant status increases the gap because so many Texas Latinos are U.S.-born, and native-born Latinos earn less in Texas than elsewhere.

What explains the remaining gap? It's likely that the cost-of-living differential between Texas and other states that have large populations of Latinos plays an important role, but so do the state's proximity to Mexico, long history of discrimination and relatively low minimum wage.

According to the American Chamber of Commerce Research Association, Texas has the nation's eighth-lowest cost of living.³ California, home to the largest population of Latinos, ranks 49th—that is, it has the second-highest cost of living. Florida and New York, other states with large Latino populations, are ranked 30th and 44th. With the state's relatively low cost of living, Texas employers can pay workers less. The lower wages show up in cross-state comparisons, but Texans aren't necessarily worse off because the lower living costs translate into higher real wages.

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the Texas wage deficit. About 23 percent of Texas Latinos live in border cities, and one study found that Mexican immigrants working in the region earn 16 percent to 20 percent less than those who migrated into the U.S. interior.⁴

In theory, this localized earnings penalty should disappear over time—if workers are sufficiently mobile. However, Latino immigrants may not exercise their mobility if they have strong preferences for staying along the border for cultural, language or geographical reasons.⁵

Texas has a history of discrimination against Latinos, particularly in education. Mexican-Americans endured inferior and separate schooling for decades, with lasting consequences.⁶ As of the 2005–06 school year, Texas was the second-most segregated state for Latino students.⁷ In addition, Latinos have often been pushed toward vocational occupations rather than encouraged to pursue more schooling.⁸

Policy differences may also affect the remaining wage gap for both native-born and immigrant Latinos. The minimum wage is a prime example. While other large states with substantial Latino populations set minimum wages above the federal rate, Texas simply adopts the national standard. A relatively low minimum wage helps employment grow but may also keep wages relatively low in entry-level jobs.

The Jobs Latinos Hold

Does the occupational distribution of Texas Latinos provide any clues to the earnings deficit?

To address this question, we use CPS data from 2003–09, a period during which consistent occupation codes are available. We calculate Latino workers' relative occupation shares—the fraction of Latino workers in an occupation divided by the fraction of non-Hispanic workers in that occupation. When the ratios exceed 1, Latinos are overrepresented in that occupation.

For Texas Latinos, we find the highest ratios in building and grounds maintenance, construction, food preparation, farming and fishing, production and transportation (*Table 3*). These are largely low-paying jobs that don't require high levels of education.

In higher-paying occupations—such as computer, mathematical, life, physical and social sciences as well as architecture, legal, management, business and finance—ratios are far below 1, indicating that Texas Latinos are very unlikely to have these occupations.

Table 3

Texas Latinos Overrepresented in Low-Wage Occupations

Occupation	Relative share of Latino workers
Building and grounds cleaning and maintenance	4.1
Construction and extraction	3.1
Food preparation and serving	2.5
Farming, fishing and forestry	2.2
Production	2.0
Transportation and material moving	1.6
Health care support	1.4
Installation, maintenance and repair	1.1
Personal care and service	1.0
Office and administrative support	.9
Sales and related	.7
Protective services	.7
Community and social services	.6
Education, training and libraries	.5
Arts, design, entertainment, sports	.5
Health care practitioners and technical	.4
Business and financial operations	.4
Management	.4
Legal	.3
Architecture and engineering	.3
Life, physical and social sciences	.3
Computers and mathematical sciences	.2

NOTE: Shown is the ratio of the share of Latinos in a given occupation category to the share of non-Latinos in a given occupation category.

SOURCE: Authors' calculations using 2003–09 Current Population Survey data.

Adding occupations to our analysis allows us to measure the effect of job choice on in-state wage differences between Latinos and non-Hispanic whites. We find the wage gap shrinks from 16 percent to 12 percent, suggesting that occupation accounts for 25 percent of Texas Latinos' remaining earnings deficit (*Table 4*).

Turning to cross-state Latino wage comparisons, we find that higher shares of Texas Latinos work in construction, office and administrative support and sales jobs

(*Table 5*). They're also overrepresented in education and health sector jobs but less likely to be employed in farming and fishing work than Latinos elsewhere. A smaller proportion of Texas Latinos hold production and food-service jobs.

Despite significant differences in Latino occupational choice across states, adding this factor to our gap analysis has no effect on the cross-state wage gap (*Table 4*). Adding occupation variables leaves the adjusted wage gap at 11 percent.

Table 4

Occupation Affects Latino Wage Gap In-State but Not Cross-State

	Remaining wage gap (percent)	
	Latinos vis-à-vis non-Hispanic whites in Texas	Texas Latinos vis-à-vis U.S. Latinos
Unadjusted	-46	-10
Adjusted for		
Age, sex, marital status, citizenship, immigrant status	-34	-15
Add education	-16	-11
Add occupation	-12	-11

NOTE: We use the log of real weekly wages among workers ages 20–64 as the dependent variable in least squares regressions on the Latino and Texas dummy variables (row 1), adding demographics and immigration (row 2), education (row 3) and occupation variables (row 4). The wage gap is the coefficient on the Latino dummy variable (column 1) and the Texas dummy variable (column 2).

SOURCE: Authors' calculations using 2003–09 Current Population Survey data.

Table 5
Latino Occupational Choice Varies Across Texas, U.S.

Occupation	Distribution of Latino workers					
	All Latinos		Native-born Latinos		Immigrant Latinos	
	Texas	U.S.	Texas	U.S.	Texas	U.S.
Construction and extraction	14.2	12.8	7.9	6.9	22.9	16.6
Office and administrative support	12.7	11.6	17.8	18.5	5.7	7.2
Sales and related	9.4	8.4	11.5	11.4	6.4	6.5
Production	9.4	10.7	6.9	6.1	12.9	13.7
Transportation and material moving	8.4	8.2	7.7	6.8	9.4	9.2
Building and grounds cleaning and maintenance	9.8	7.9	4.4	4.0	12.8	13.5
Food preparation and serving	7.6	8.4	5.3	5.1	10.8	10.6
Management	5.4	5.4	6.8	7.8	3.4	3.9
Installation, maintenance and repair	4.3	3.5	4.5	3.9	4.1	3.3
Education, training and libraries	3.5	2.7	4.8	4.5	1.7	1.6
Personal care and service	3.0	3.2	3.4	3.7	2.4	2.9
Health care support	2.5	2.1	3.3	2.8	1.5	1.6
Health care practitioners and related	2.3	2.0	3.4	3.3	.8	1.1
Business and financial operations	2.2	2.3	3.2	3.8	.8	1.3
Protective services	1.7	1.5	2.6	2.9	.6	.5
Farming, fishing and forestry	1.2	2.4	.7	.6	1.8	3.6
Arts, design, entertainment, sports and related	1.2	.9	1.1	1.6	.7	.9
Community and social services	.9	1.1	1.3	1.9	.4	.6
Architecture and engineering	.9	.9	1.2	1.3	.5	.6
Computers and mathematical sciences	.8	.9	1.1	1.5	.4	.5
Legal	.4	.6	.7	1.1	.1	.2
Life, physical and social sciences	.3	.4	.4	.6	.1	.3

NOTE: Shown is the fraction of the Latino workforce in a given occupation category in Texas and in the rest of the U.S.

SOURCE: Authors' calculations using 2003–09 Current Population Survey data.

A Permanent Wage Gap?

Part One of this article pointed to education as a key factor keeping Texas Latinos' wages low. We have now quantified this effect, finding that educational attainment explains 55 percent of the in-state Latino wage gap vis-à-vis non-Hispanic whites and 20 percent of the gap relative to Latinos living in other states.

The less educated tend to become low-wage workers. In post-2002 data, taking occupation into account further narrowed the in-state gap vis-à-vis non-Hispanic whites by 25 percent, although it did nothing to shrink the cross-state gap with other Latinos.

To a large extent, education and occupation are matters of individual choice and institutional responsibility. Improving educational outcomes of Texas Latinos will give them access to higher-paying occupations.

The importance of investing more in Latino education hasn't been lost on Texas policymakers. Implemented in 1993, Texas' controversial "Robin Hood" scheme of school finance, which redistributes tax revenue from rich to poor school districts, has greatly benefited the financially disadvan-

tagged districts, many of which serve mostly Latino and other minority students.⁹

Other educational reforms have targeted higher education. For example, a 1997 rule guarantees public university admission to high school students who graduate in the top 10 percent of their classes. Research finds the rule, which was implemented after race-based quotas were scrapped, has had a positive impact on minority enrollment.¹⁰

Another law grants in-state tuition to undocumented immigrant students. It can improve educational outcomes but will not pay off in the labor market since these immigrants can't legally work, a constraint more likely to be binding in high-wage than low-wage occupations.¹¹

All told, most of the Texas Latino wage gap relative to non-Hispanic whites in our state can be explained by characteristics such as education, immigrant status and occupational choice. Some characteristics—such as immigrant status—are out of reach for state policymakers. But targeting educational outcomes would likely pay off in reducing occupational inequality and increasing Latino wages.

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Notes

¹ We use the outgoing rotation group files of the Census Bureau's Current Population Survey, a large-scale monthly poll of about 50,000 U.S. households.

² This number represents the average wage differential for 1994–2009 and is therefore different from the wage differential displayed in Table 1 of Part One of this article, which represents the average wage differential for 2007–09.

³ Report can be found at www.missourieconomy.org/indicators/cost_of_living/index.stm.

⁴ 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, eds., Tucson: University of Arizona Press, 2009, pp. 139–59.

⁵ For further discussion on this topic, see "Changes in the Relative Earnings Gap Between Natives and Immigrants Along the U.S.–Mexico Border," by Alberto Dávila and Marie T. Mora, *Journal of Regional Science*, vol. 48, no. 3, 2008, pp. 525–45.

⁶ See "*Let All of Them Take Heed*": *Mexican Americans and the Campaign for Educational Equality in Texas, 1910–1981*, by Guadalupe San Miguel Jr., College Station: Texas A&M University Press, 1987.

⁷ Calculated as the percentage of Latino students in 90 to 100 percent minority schools. See "Historic Reversals, Accelerating Resegregation, and the Need for New Integration Strategies," by Gary Orfield and Chungmei Lee, The Civil Rights Project, UCLA, August 2007.

⁸ See *The Other Struggle for Equal Schools: Mexican Americans During the Civil Rights Era*, by Rubén Donato, Albany: State University of New York Press, 1997.

⁹ For a more detailed analysis, see "Improving Public School Financing in Texas," by Jason Saving, Fiona Sigalla and Lori Taylor, Federal Reserve Bank of Dallas *Southwest Economy*, no. 6, 2001.

¹⁰ See "Policy Transparency and College Enrollment: Did Texas Top Ten Percent Law Broaden Access to the Public Flagships?" by Mark C. Long, Victor Saenz and Marta Tienda, *Annals of the American Academy of Political and Social Science*, vol. 627, no. 1, 2010, pp. 82–105.

¹¹ Research suggests the returns to education for undocumented immigrants from Mexico are small. See "Illegal Immigrants in the U.S. Economy: A Comparative Analysis of Mexican and Non-Mexican Undocumented Workers," by Francisco L. Rivera-Batiz, in *International Migration: Trends, Policy and Economic Impact*, Slobodan Djajic, ed., London: Routledge, 2001, pp. 180–203.