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The Economic Impact of September 11th on Middle Eastern Immigrants

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I. Introduction

"In the aftermath of September 11th, there has been heightened interest in the Middle Eastern immigrant population living in the United States. Their integration and incorporation into American society has come to be seen as increasingly important" (Center for Immigration Studies). The Center for Immigration Studies claims that before September 11th there was little evidence of discrimination against Middle Eastern immigrants in the job market. Discrimination can be said to exist in the labor market if two equally productive groups of workers are treated differently by employers in hiring and compensation. Median earnings in 2000 for Middle Eastern men were $39,000, slightly higher than the $38,000 average for native workers (Center for Immigration Studies). However, an independent researcher, Garg (2004), claims that if a US native earned $30,000 in 2000, a Middle Easterner having the same job would earn $21,780.

According to the Center for Immigration Studies, by 2000 an estimated 73% (1.1 million) of all Middle Eastern immigrants were Muslim. A current Newsweek poll on American attitudes toward Muslims and Islam has found that 46% of Americans believe that the United States is taking in too many Muslim immigrants (humanevents.com). With feelings of Islamophobia increasing among Americans, one aspires to find out whether these feelings are translating themselves in the job market.

My paper aims to figure out whether the income disparity between natives and Middle Eastern immigrants has increased following the events of September 11th. This paper hypothesizes that income disparity between native workers and Middle Eastern immigrants has increased following the events of September 11th. My hypothesis is based on Becker's

"taste for discrimination" theory and this paper seeks to find whether Americans have developed a taste for discrimination against Middle Eastern immigrants.

II. Theory and Review of the Literature

Becker's (1957) taste model posits that employers, workers, or customers may have a taste for discrimination. Such a "taste" refers to preference in favor of or against hiring, working with, or buying from a particular group, such as minorities or women. It is believed that if one is willing to pay an extra amount of money for something, it indicates that one has a taste for it. Thus, a taste for discrimination implies that discriminators are willing to pay extra to hire a preferred group. Becker argues tastes for discrimination are explained by pre-market factors, meaning that discrimination is not affected by expectations or actual experiences of discrimination in the labor market.

An employer with a taste for discrimination against Middle Eastern immigrants is unwilling to hire Middle Eastern immigrants unless they offer themselves at a wage far enough below the wage paid to other natives. How low this wage must be will depend upon the extent of the employer's taste for discrimination. Therefore, Becker, like most economists, saw an inextricable link between discrimination in wages and hiring.

"Some employers discriminate, not because of their own tastes but in response to their consumers' tastes."(England 1994) We would not expect customer discrimination to be widespread, but rather to occur only in service firms, where employees meet customers. In manufacturing and extractive firms, customers do not know the race of workers, so customer induced taste discrimination should not be pervasive.

"Employers may also discriminate in response to their workers' tastes" (Bergmann and Darity 1981). For example, native workers may object to working with Middle Eastern immigrants and require a higher wage to do so.

The taste for discrimination model can be expressed mathematically as follows:

$$W_n = W_{me} + D$$

Where W_n is the wage rate received by natives, W_{me} is the wage rate received by Middle Eastern immigrants with the same skills, and D is the discrimination coefficient. Other things equal, the greater the value for D, the greater the discrimination in the market.

The graphical analysis of Becker's taste for discrimination as applied to Middle Eastern immigrant workers is shown in Figure 1. Let's assume that before September 11th the ratio of wages paid to Middle Eastern immigrants to wages paid to native born workers is 0.6 as shown by the intersection of the demand and supply of Middle Eastern immigrant workers. The horizontal portion of the demand curve, where the ratio is 1, reflects non-discriminating employers. The downward sloping portion of the demand curve reflects discriminating employers whose D (discrimination coefficient) increases as we move down the segment. Hence the kinked demand curve is constructed by arraying employers left to right, from lowest to highest discrimination coefficients. The supply curve for Middle Eastern immigrant workers is upward sloping because as the ratio of the wages increases more of the people are willing to work.

If the events of September 11th increased the taste for discrimination, then the horizontal portion of the demand curve would be shorter and the slope of the demand curve would increase. This in turn would cause the ratio of the wages paid to Middle Eastern immigrant workers to the wages paid to native-born workers to decrease (assuming that the supply remains the same) as shown in Figure 2.

Thus, based on the theory presented in this section, this paper hypothesizes, that the income disparity between native workers and Middle Eastern immigrants has increased following the events of September 11th.

III. Data and Empirical Model

To evaluate income disparity between natives and Middle Eastern immigrants, I will compare the results of the 1999 and 2000 Current Population Survey to the 2002 and 2003 Current Population Survey. The Current Population Survey (CPS) is a monthly survey of about 50,000 households conducted by the Bureau of the Census for the Bureau of Labor Statistics. The survey has been conducted for more than 50 years. The CPS is the primary source of information on the labor force characteristics of the U.S. population. The sample is scientifically selected to represent the civilian non-institutional population.

Figure 1: Hypothesized Taste for Discrimination before September 11th
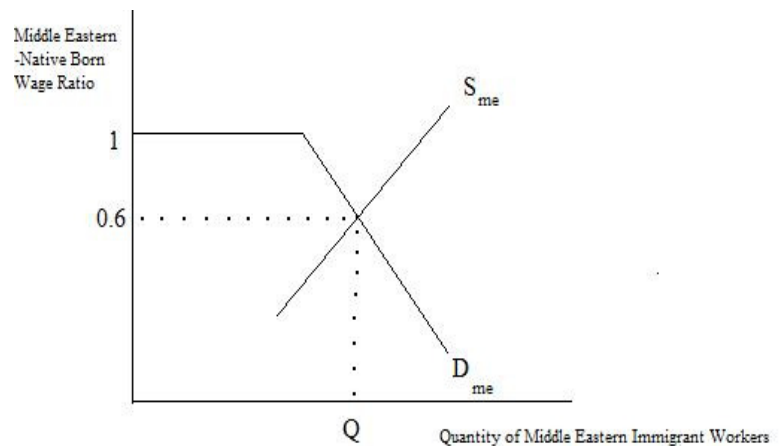
Figure 2: Hypothesized Taste for Discrimination after September 11th
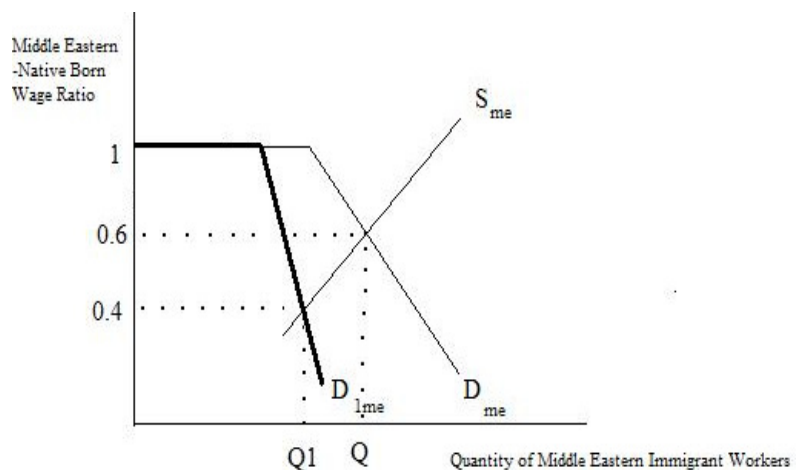
Respondents are interviewed to obtain information about the employment status of each member of the household 15 years of age and older. However, published data focus on those aged 16 and over. The sample provides estimates for the nation as a whole and serves as part of model-based estimates for individual states and other geographic areas.

For the purposes of my study the Middle East would include the following countries: Iraq, Iran, Palestine, Pakistan, Bangladesh, Jordan, Lebanon, Saudi Arabia, Syria, Kuwait, Yemen, Middle East Not Specified (those people who categorized themselves as Middle Eastern but did not specify their country of origin), Egypt, United Arab Emirates, Morocco, Algeria and Sudan. A Middle Eastern immigrant is defined as one who is born in the Middle East and is living in the United States. People born abroad to American parents (e.g. born while their parents were temporarily stationed abroad) are considered to be U.S. natives.

To test my hypothesis I will run two ordinary least squares regressions. For the first regression I will use data from the 1999 and 2000 Current Population Surveys. For the second regression I will use data from the 2002 and 2003 Current Population Surveys. The regressions are formulated as below:

$$TPE_{1999\&2000}=\beta+\beta_1ME+\beta_2OTHER+\beta_3YEARS+\beta_4EDU$$

$$TPE_{2002\&2003}=\alpha+\alpha_1ME+\alpha_2OTHER+\alpha_3YEARS+\alpha_4EDU$$

Through my regressions I aim to find out the value of the coefficients β_1 and α_1. If α_1 is more negative than β_1, this would point out that the income disparity of Middle Eastern immigrants compared to natives has increased, thus supporting my hypothesis. My hypothesis according to the empirical model is formatted as follows: $\alpha_1 < \beta_1$.

TPE, which is the independent variable, is defined as the total personal pre-tax income of the individual. It will serve as a measure of the economic impact on Middle Eastern immigrants. This variable is direct, easy to understand, and an appropriate measure, though it will have to be adjusted for inflation because the models aim to measure the changes over time.

ME is a dummy variable that attempts to measure the difference of being a Middle Eastern immigrant rather than a native-born citizen and is designed to capture the effects of discrimination. A value of one is assigned to Middle Eastern immigrant respondents while a value of zero is assigned to all other respondents. A negative sign on this variable is predicted because according to my hypothesis, being Middle Eastern affects one's income negatively.

OTHER is a dummy variable that attempts to compare the difference of being an immigrant from any country, other than the designated Middle Eastern countries, to being a native-born citizen. A value of one is assigned to immigrants of other nationalities while a value of zero is assigned to all other respondents. A negative sign on this variable is predicted because, according to previous research, being an immigrant affects one's income negatively.

YEARS is a dummy that tries to gauge the effect of the number of years a person has lived in the United States. A person who immigrated to the United States after 1990 is given a value of one. Native-born citizens and old immigrants (immigrants before 1990) are given a value of 0. This variable attempts to control for the affect of ethnic capital on income since it is theorized that the number of years in the United States increases the assimilation of a person in mainstream society, and therefore positively affects income.

EDU is a dummy that aims to control for the educational attainment of an individual. The highest number of years of formal education the respondent has attained is quantified as follows: none or pre-school is given a value of one, grades 1-4 is given a value of two, grades 5-8 are given a value of three, grade 9 is given a value of four, grade 10 is given a value of five, grade 11 is given a value of six, grade 12 is given a value of seven, some college is given a value of eight, and 4+ years of college is given a value of nine.

Table 1 on the following page serves as a summary of these variables.

Table 1: Variable Definitions and Their Predicted Signs

Variable	Type	Definition	Expected Sign
TPE	Dependent	Total Personal Income of Individual	
ME	Independent	Dummy variable indicating whether the individual is a Middle Eastern immigrant or not. Middle Eastern=1 Other=0	Negative
OTHER	Independent	Dummy variable indicating whether an individual is an immigrant of any nationality other than Middle Eastern. Immigrant of other nationality=1 Other=0	Negative
EDU	Independent	Formal education received	Positive
YEARS	Independent	Dummy variable to assess whether a person is old or new to the United States. Immigration after 1990=1, native-born or immigration before 1990=0	Positive

IV. Results

The first regression is run in order to find the effect of being Middle Eastern-born, rather than native-born, on income before September 11th. The second regression is run in order to find the effect of being Middle Eastern-born on income after September 11th. The regressions have R-square values of 0.25 and 0.31 respectively, so the variables in the regression do have a bearing on personal income and suggest that discrimination exists in the labor market. For an explanation of my results I want to restate my empirical hypothesis: $\alpha_1 < \beta_1$.

My hypothesis holds true, but the decrease in the coefficient of the variable ME is not considerable. The sign of the coefficients also remained the same. Therefore it can be said that although the wages for Middle Easterners are declining, they are still doing better than native-born workers in personal earnings, and the effects of September 11th have not surfaced in the labor market. The coefficients of the other variables from the two regressions do not differ a great deal as a result of September 11th.

The two regressions are represented by the following equations:

$$TPE_{1999\&2000} = 29551 + 3326ME - 4045OTHER - 4982\,YEARS + 4589EDU$$

$$TPE_{2002\&2003} = 28765 + 3245ME - 3485OTHER - 9486YEARS + 5589EDU$$

The coefficient for ME, which forms the crux of my research question, has an unexpected positive value. This positive value was consistent with the finding of the Center of Immigration Studies. The value is statistically significant and remains positive across both regressions. The results definitely suggest that there was little discrimination before September 11th because the regression shows that if a person was Middle Eastern rather than Native-born he would earn $3326 more. After September 11th wages show a declining trend as this value declined to $3246. This effect can be treated as negligible. The taste for discrimination model provides two possible explanations for my findings. Becker argues that in the long run, markets are driven to achieve efficiency and therefore firms may not discriminate on the grounds of race. A second explanation could be that the supply of Middle Eastern immigrants is lower and so a greater proportion may be able to find employers in the market that do not discriminate on the grounds of race.

Immigrants from other countries are proven to be at a disadvantage when compared to native-born workers, as the coefficient 'Other' is negative and significant. However, a generalization cannot be made, since this group contains diverse immigrant populations ranging from Mexicans, who generally fare worse in the labor market, to Europeans, who generally do better in labor market. This variable did its job isolating native-born workers as the reference group.

Educational Attainment has a large, positive and significant effect on personal income as expected.

The effect of being new to the US also has a significant impact on earnings as shown by the variable "years". This variable is negative and significant. Therefore the idea that a lack of cultural capital negatively affects personal income is reinforced by this research.

Table 2: Regression Results

Variable	Regression 1 Unstandardized Coefficients	Regression 2 Unstandardized Coefficients
Constant	29551.91** (216.07)	28765.24** (183.40)
ME	3326.93* (2.618)	3245.31* (2.133)
OTHER	-4045.940** (-17.55)	-3485.19** (-13.14)
EDU	4589.76** (16.78)	5589.22** (0.608)
YEARS	-4982.14** (-11.65)	-9486.854** (-21.49)

Note: t-stats appear in brackets
*Indicates significance at 0.05 level
**Indicates significance at 0.01 level

V. Conclusion

As indicated by the results of my research, the event of September 11th caused little discrimination against Middle East immigrants in the labor market. One economist commenting on the beauty of a free a market points out that, "in economics, labor market discrimination is objectionable not only on moral grounds but also because the unequal treatment of equally productive workers is inefficient." (Lundberg, 1994). Discrimination against Middle Eastern immigrants may be seen in other aspects of life, but in a world of competing firms this discrimination may prove costly.

Therefore it can be concluded that a competitive market provides the incentive for firms to uphold American values of hospitality. Senator John Chaffee of Rhode Island once famously said that "the United States is made up of all sorts of people from diverse backgrounds and of diverse religious faiths, and that has been one of our great strengths" (U.S. Congressional Record 1987: 12793)

Discrimination, properly measured, results from a market failure which not only may have adverse affects on the US economy, but is also against the essence of the US Constitution. As Chief Justice Burger argued, for example, the Constitution "affirmatively mandates accommodation, not merely tolerance of all religions, and forbids hostility toward any" (*Lynch* v. *Donnelly,* 104 S. Ct. 1359, 1984).

In line with the rich US tradition of pluralism my results prove encouraging for Middle Eastern immigrants who are in the US labor market.

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