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The Demographics of Georgia IV: Hispanic Immigration Economic Policy Issues

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From the Director

This report is one of a series that explores Georgia's fiscal, economic and demographic features. The demographic reports will consider many different sub-populations. The well being of the state depends on the well being of its residents, so it is important to understand the economic and social conditions of population. The best way to do that is to consider each sub-population.

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Executive Summary

The Hispanic population in the state of Georgia has grown rapidly in the last 15 years. The 2000 Census shows that there were 435,000 Hispanics in the state. Many Hispanics moved to the state in search of good economic opportunities. In addition, it is estimated that about half of the total number of Hispanics in the state are undocumented immigrants. This report analyzes the economic implications of the increasing Hispanic population both legal and undocumented. The findings are as follows.

Education

- The number of Hispanic children has risen dramatically in K-12 schools. This has resulted in funding issues for English as a Second Language (ESL) classes.
- Compared to natives, undocumented immigrants (mostly Hispanic) have a very high drop-out rate from high school. Undocumented Hispanics that do graduate from high school face barriers to attend state colleges.
- While additional education expenses are a significant short-term burden, the long-term gains to both individuals and society produced by improvements in education may outweigh the costs.

Health Care

- About 40 percent of Georgia's Hispanics do not have health insurance versus about 19 percent of non-elderly Georgians (Georgia Health Policy Center, 2005). Undocumented Hispanics have access to emergency Medicaid only which includes child birth labor and delivery.
- Mostly due to labor and delivery care and emergencies the uncompensated costs for some hospitals have risen. However, hospitals do not collect information on the immigration status of their patients. Hence, it has been hard to estimate the degree to which these uncompensated costs arise from undocumented immigrants versus low-income natives without health insurance.
- According to recent legislation, \$250 million per year has been appropriated in the federal budget to be used for payments to hospitals and other emergency care providers over 2005 to 2008. Georgia's share of these funds will be approximately \$5 million per year. While emergency Medicaid expenditures tripled in Georgia between 2000 and

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2002, these expenditures are still a small part of the state's total Medicaid expenditures.

- Improved health care also depends on increasing the dissemination of health care information in Spanish. There are important initiatives in this area.

Labor Market

- According to most studies of immigrants in the U.S., the effect of immigration on employment of natives ranges from no effect to a small negative effect. This negative displacement effect is found mostly in low-skilled occupations.
- The effect of immigrants on the wages of natives depends on how substitutable immigrants are for native workers. In the professional ranks, an increase in the immigrant share can actually *increase* the wages of natives. In the manual labor market, an increase in the immigrant share does reduce wages for natives, but the effect is small.
- The increase in the Hispanic population does not appear to have affected Georgia's unemployment rate in the last 15 years. This would also appear to be the case even in areas where there has been a disproportionate increase in Hispanic immigrants like metro Atlanta, Dalton, and Gainesville.

Financial Services

- Compared to other groups, a large percent of Hispanics do not use the services offered by the financial system such as owning a bank account. Banks view the Hispanic population as a market with significant potential.
- Hispanics are less likely to obtain mortgage or business financing from the financial system compared to other groups.
- The credit constraint on Hispanics will decline over time as bank competition increases, more Hispanics enter into the formal financial sector, and the concentration of the Hispanic population in Georgia increases.

The Fiscal Impact of Immigration

- The fiscal impact of immigrants on governments has been studied in various cities, states, and in the country as a whole. Researchers have

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used two basic approaches to study this issue. The short-term approach studies the fiscal impact over a narrow time horizon. The long-term approach studies the fiscal impact of immigrants and their descendants over time.

- For state and local governments, the costliest benefits provided to immigrants are K-12 education, Medicaid, and welfare. The largest collection of taxes comes from the sales taxes, state income taxes, and property taxes. The cost of benefits provided to immigrants exceeds the taxes collected from them for state and local governments in the short-term.
- For the federal government, the costliest benefits are social security, Medicare and Medicaid, but only legal immigrants are eligible for the first two programs. The largest collection of taxes from immigrants is from income taxes and social security taxes. Taxes collected from immigrants may exceed the costs of benefits provided by the federal government in the short-term.
- Hence, in the short-term states and local governments have a negative fiscal balance from immigrants, while the federal government may have a positive fiscal balance.
- Long-term studies find that the fiscal balance of the immigrant plus several generations of descendants may be positive. The key determinants of this are the age and educational level of immigrants and their descendants. The more education the immigrant and their descendants obtain, the larger the positive fiscal balance for all levels of government.
- The guidelines for future studies of the fiscal impact of immigration in Georgia are: First, simple extrapolations from previous studies done for other states or for the country can yield severely misleading results. The reason is the large differences in each state's immigrant population characteristics and eligibility for public services. Second, both short-term and long-term frameworks should be used to obtain a true picture of costs and benefits over several generations as age, education and skill levels change.

Undeniably, the rapid increase in the Hispanic population and the numbers of undocumented workers in particular are associated with increased costs in terms of education, health care, and other government expenses. However, estimating the net effect must take into account short-term and long-term effects. Current investments in education are outweighed by the long-term individual and societal gains. Investments in preventive medical care reduce the long-term health care spending. The fiscal

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balance of Hispanics is positive if the analysis accounts for the contributions of future generations, particularly if these generations are well-educated.

The growth of the Hispanic population in Georgia is a fact and will likely continue in the future. Public policy designed to weigh the short-term costs associated with this trend against the potential long-term benefits of investments in health and education can help make this population growth a net benefit for Georgia.

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I. Introduction and Background

The rapid growth of the Hispanic population in Georgia has been well documented. Census data show that Hispanics increased from 1.7 percent of the Georgia population in 1990 to 5.3 percent in 2000. This is a 300 percent increase in only ten years (see Table 1). During that period, only two other states (North Carolina and Arkansas) had higher growth rates in Hispanic population. More recent data suggest that this trend is continuing. From 2000 to 2002, Georgia had the fastest growing Hispanic population in the country, growing from 435,227 in 2000 to 516,500 in 2002. During the same time period, metro Atlanta experienced the most rapid growth rate in terms of Hispanic population among the nation's 20 most populous metro areas (Bixler, 2003).

TABLE 1. THE RAPIDLY GROWING HISPANIC POPULATION IN GEORGIA

Hispanic population in Georgia (2000 census)	435,000
Percent increase in Georgia's Hispanic population 1990-2000	312%
Percent increase in Georgia's Hispanic population 2000-2002	19%
Estimate of the number of undocumented immigrants in Georgia	200,000-250,000
Percent increase in Georgia's Hispanic purchasing power 1990-2003	661%
Number of Georgia businesses in the top 500 National Hispanic Businesses	11
Number of Atlanta's top 25 minority-owned firms owned by Hispanics	10

Source: Kochhar, Suro, and Tafoya (2005); Humphreys (2002, 2003).

The rapid growth of the Hispanic population of Georgia is due to the largest wave of legal and illegal immigration in almost a century and the high birth rates of Hispanics. Much of the surge can be linked to the economic boom that took place in Georgia as the demand for low-skilled labor in various industries such as construction, poultry processing plants, and carpet mills has been increasing ahead of the domestic supply. Furthermore, Hispanic women have an average of 3.2 children while non-Hispanic white women have an average of 1.5 children (Boatright, 2001).

A recent UGA study ranked Georgia as having the 3rd fastest growing Hispanic purchasing power from 1990 (\$1.3 billion) to 2003 (\$10.2 billion), a growth of 660.9 percent! This was enough to make Georgia the nation's tenth largest Hispanic market in 2002. Hispanic buying power in Georgia is expected to more than double in the next five years to \$22.8 billion (Humphreys, 2002, 2003). Moreover,

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the Georgia Hispanic Chamber of Commerce (2003) reports that business formation rates for Hispanic-owned businesses have been the highest in the eastern seaboard states, especially in Georgia, with growth rates of 15 to 18 percent annually. Hispanic buying power in Metro Atlanta is over \$8 billion, an increase of 864 percent since 1990.

Clearly, this demographic shift has important implications for the economy of Georgia and for public policy. This study discusses the effects of the growth in the Hispanic population on the education and the health care sectors, on labor markets, and on the financial services sector. We also discuss the fiscal impact on governments. Our objectives are 1) to identify the major challenges and opportunities arising from the growth in the Hispanic population; 2) to identify areas where research needs to produce more precise dollar estimates of various revenues and outlays; and 3) to draw broad conclusions about the readiness of Georgia to deal with its changing demographics.

We should note that the issues related to the Hispanic population may sometimes, but not always, overlap with issues related to illegal immigration.¹ Yet, research has often blurred this line partly because most available data sources do not identify the immigration status of Hispanics. Following recent practice, we will refer to immigrants that are not legally in the U.S. as “undocumented immigrants” (formerly referred to as “illegal aliens”). We should also note that the effects of the growing Hispanic and immigrant communities and the policies that are proposed to deal with these effects are evolving very rapidly. Anything written here could be somewhat out of date within only a few months. Nonetheless, some of the issues are more fundamental and lasting. Also, some issues are not new to other states that have experienced a similar growth in their Hispanic populations in the past.

¹ Roughly half of the Hispanic population in Georgia may be undocumented based on Passel’s (2005) estimates of 200,000 to 250,000 undocumented immigrants in the state.

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II. Education

The educating of Georgia's growing Hispanic population is becoming a major concern to those involved in the educational system, ranging from the small rural school districts to the University System of Georgia. There are numerous issues in this area but two seem to stand out: 1) how to appropriate additional funds to the K-12 system that are needed to support the increased number of students and to provide for English as a Second Language (ESL) instruction, and 2) how to increase enrollment of Hispanic students into colleges and universities.

It is well known that in the *Plyer v. Doe* 1982 decision, the Supreme Court ruled that all children regardless of immigration status can access K-12 public education. In the state of Georgia, the absolute number and the proportion of Hispanic students are increasing in both primary and secondary education. In the 1993-94 school year, Hispanics comprised just over 2 percent of all 904,891 K-12 students in the state (18,978 Hispanic students). Only about 1 percent of the total student body was identified as having limited proficiency in English and a similar size group was classified as migratory (U.S. Department of Education 2002).² Today, the demographics of Georgia's education system are quite different. Five and a half percent, or 78,399 students enrolled in the 2001-2002 school year identified themselves as Hispanic. Two and a half percent of all students (36,451 pupils) are learning English as a second language, and more than 24,500 students are eligible for special funding for migrant students (Georgia Department of Education, 2002). Migrant students almost doubled in number, and students not proficient in English more than tripled in less than a decade. Educating students for whom English is a second language is costly. The state funding for such programs increased from \$9 million in 1995 to over \$59 million in 2004 (Whitt, White and Bixler 2004).³ This is a significant additional burden on education finances.

² According to the Georgia Department of Education, migratory students are defined as the children of migratory workers (Georgia Department of Education 2002). These students receive special services to compensate for missed time and frequent changing of schools.

³ In Marietta, GA, located in Cobb County, the school district discontinued a Spanish program for elementary students to begin learning a second language early and began funding instead an International Academy whose student body includes many illegal immigrants (Whitt, White and Bixler 2004).

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The additional funding devoted to students not proficient in English would hopefully increase academic achievement, which has been low for Hispanic students compared to other students. All fourth, eighth, and eleventh graders take the Georgia Criterion References Competency Test in the subjects of reading/language arts and mathematics. Of all fourth grade students, the percentage not meeting the standards was 35 percent and 38 percent for reading and math, respectively. Conversely, the scores of fourth grade students with limited English ability were well below the average, with 78 percent failing to meet standards in reading and 68 percent not meeting minimum standards on mathematics. In eighth grade, the picture remains bleak for students with limited English, with 68 percent not meeting standards in reading and 72 percent failing to meet minimums set in math, compared to 25 percent and 46 percent respectively for all 8th grade students. Clearly, one major reason for this poor performance is that the test is in English, and some Hispanic children have very little knowledge of the language, especially when they first enter a school. The outcomes improve slightly in high school, with only 50 percent and 28 percent of students not proficient in English failing to meet minimum standards on the test, compared to 7 percent and 10 percent for all students (U.S. Department of Education 2002). Nonetheless, even this modest improvement may be misleading. Hispanics as a group have the highest dropout rate of all groups in Georgia. The dropout by students with low scores might explain a large portion of the increase in test scores for the remaining Hispanic students.

In 1996 the graduation rate for Hispanics was reported as 57.5 percent, much lower than the 75.3 percent of African Americans and 82.3 percent for Caucasians (Hispanic Task Force 1999). Even this rate may be misleading because it probably looks at the rate of students who enter high school relative to those who complete high school. If one were to actually track a cohort of Hispanic students entering Kindergarten through twelfth grade, the graduation rate is only 44 percent. In addition, the percentage of students classified as Hispanic decreases the higher the grade. However, this could be due to there being a relatively fewer Hispanics in higher grades. In Kindergarten, 4.4 percent of all students are Hispanic. By the twelfth grade, this figure is only 1.6 percent. Table 2 presents some educational

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TABLE 2. EDUCATIONAL CHARACTERISTICS OF 18-24 YEAR-OLD POPULATION IN 2004 (AS PERCENT OF EACH GROUP'S POPULATION)

	Unauthorized Immigrants	Legal Immigrants	Natives
Not Graduating from High School ("Dropouts")	49	21	11
High School Graduates Who Have Gone to College	48	73	70

Source: Passel (2005).

attainment data at the national level from Passel (2005). Clearly, unauthorized immigrants (of whom Hispanics are the majority) have a very high dropout rate from high school (49 percent vs. 11 percent for natives). In addition, of those that do graduate from high school, only 48 percent attend college (vs. 70 percent of natives).

According to the Board of Regents Hispanic Task Force (Hispanic Task Force, 1999), financial concerns of Hispanic families account for both the high dropout rate and the low college graduation rate for Hispanics. The task force concludes that pressures to work and contribute to the family's income can cause students to drop out of school even before completing high school. Older siblings take on responsibilities such as watching younger siblings while both parents are working outside of the home (Hispanic Task Force 1999). Another important factor is that the immigrant parents themselves typically have low education levels. According to Passel (2005), 32 percent of undocumented immigrants have less than 9th grade education and only 25 percent of them have a high school diploma.⁴ Researchers in the education field have found that the level of education of parents is a key determinant for the education of their children.

In addition to some financial constraints, Georgia's Hispanic graduates who are not yet legal residents of the United States face further complications. It was not until action was taken by the Board of Regents Hispanic Task Force that all schools in the University System of Georgia recognized individuals whose immigration status was currently pending as residents of the state of Georgia and eligible for in-state

⁴ Interestingly, 15 percent of undocumented immigrants have bachelor's degrees or more. Also, a higher percentage of legal immigrants have college degrees than natives (32 percent vs. 30 percent) (Passel, 2005).

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tuition rates. The same benefits, however, are not extended to undocumented immigrants.

Some schools and organizations, however, have begun to reach out to these individuals specifically. While some state schools were voluntarily waving certain fees for undocumented immigrants who graduated from a Georgia high school, Georgia State University and Kennesaw State University, with the help of the Goizueta Foundation, have begun awarding scholarships to undocumented immigrants. The issue remains controversial, with businesses reluctant to donate for this particular cause and political leaders still divided (Gutierrez 2004).

Other states with larger Hispanic and immigrant populations have already addressed those issues still unresolved for many of Georgia's colleges and universities, but even actions by the states may be in direct opposition to a 1996 federal act that banned the granting of in-state rates to all illegal immigrants unless out-of-state fees were also discontinued for all Americans. The states of California, Texas, New York, and Utah, were already allowing undocumented immigrants to obtain in-state rates provided that the students meet certain criteria (Whitt 2003). For example, in California, undocumented immigrants are now allowed to pay in-state rates if they graduate from a California high school after attending for a minimum of three years and are willing to sign an affidavit stating that they are filing for legal status. As of 2002, this policy applied to less than one half of one percent of all students enrolled in the California State University System, the University of California System, and all of the state's community colleges. What remains uncertain is how this plan would affect future enrollment in California's institutions of higher learning (McGann, 2002). Since the 1996 act, Maryland has also passed legislation allowing the extension of in-state rates to eligible illegal immigrants, although the legislature in Virginia did not approve a similar plan. Other states are still waiting to see whether the 1996 federal act will be repealed before making changes to their policies (Whitt, 2003).

Another issue that may play a factor in the low graduation rate for Hispanics is the lack of role models in the educational system. According to CCSSO (2001), Georgia's public school system had 1,946 schools, 6,991 administrators, 9,365

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support personnel, and 97,280 teachers. However, in the 2001-2002 school year, there were only 31 Hispanic administrators, 48 Hispanic support personnel, and 773 Hispanic teachers (State of Georgia, 2002).

The Board of Regents Hispanic Task Force found three barriers that ultimately prevent Hispanic students from reaching higher levels of education: language, finances, and residency. The following are some of this task force's numerous recommendations. First, it recommends an increase of the foreign language requirements for students majoring in degrees leading to public service positions such as social work and education. If these individuals are more fluent in Spanish, they can better reach out to the Hispanic population and inform it of the available opportunities. Likewise, teachers who find they frequently work with students who are not proficient in English should receive special endorsement to teach English for Speakers of Other Languages. The task force also recommends that the eligibility for in-state tuition rates be expanded to include any graduate of a Georgia high school who is academically prepared to attend one of Georgia's institutions of higher learning (Hispanic Task Force, 1999).

At the federal level, Congress has been considering legislation known as the Dream Act (The Development, Relief, and Education for Alien Minors Act). Children who were brought to the U.S. more than 5 years ago and who graduated from high school in the U.S. would be eligible to apply for "conditional status" that would grant them 6 years of legal residence. The student would be required to complete either: a two-year college degree, two-years of a 4-year college degree, or serve two years in the U.S. military. After the six-year period, the student would be eligible to apply for permanent residence.⁵

Improving the educational attainment of Georgia's Hispanic population will not be an easy task, nor is it an inexpensive one. Everything from improving English as a Second Language classes to offering in-state rates will cost the tax payers additional money. However, it is important to emphasize that improvements in education have large benefits on the individual and the societal level. A recent

⁵ The Dream Act (S. 2075) has bipartisan support and is co-sponsored by 18 senators. As of November 2005, it had been referred to the Senate Committee on the Judiciary.

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comprehensive study by Hill, Hoffman, and Rex (2005) highlights these benefits. For example, the study shows that on the individual level the monetary benefits of higher education exceed *three times* the costs of obtaining a university degree. From an alternative perspective, investment in college education produces a rate of return of 12 percent per year, substantially greater than other investments.⁶

Even more significantly, greater education raises social welfare above the gains for the individual. More educated workers are more productive and make others more productive. They also facilitate the development and adoption of new more productive technologies. Using national statistics, Hill, Hoffman, and Rex (2005) estimate that investment in college education has a combined individual and social return of 16 percent per year! Their numerical simulations for the state of Arizona show that the cost of increasing the share of the labor force that has a college degree by its median rate of growth (0.2 percent) can be paid for by the combined individual and social benefits in about 13 years. Over a 20 year period, the net gain from such an increase is \$364 million. Furthermore, the report highlights important non-monetary social gains from better education such as lower crime rates and greater civic participation. Clearly, in the medium to long-run the gains from better education exceed the cost of providing it. These long-term gains should be taken into account when designing policies for funding and access to education by the growing Hispanic population in Georgia.

⁶ For example, the historical rate of return on investment in the stock market is 7 percent.

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III. Health Care

The growth of the Hispanic population in Georgia and elsewhere has raised a number of issues regarding the provision of health care. The issues are numerous but in broad terms the discussion seems to revolve around the low percentage of Hispanics with health insurance. Approximately 40 percent of Georgia's Hispanics are uninsured (National Council of La Raza, 2003). This percentage is probably much higher for undocumented immigrants. The low rates of health care coverage translate into greater emergency care expenditures for Medicaid and for hospitals and in worse health outcomes for the Hispanic community.

Almost 11 percent of all Mexican Americans have diabetes, making them twice as likely as the non-Hispanic population to suffer from the disease (Badie 2004). Hispanics are also the group most likely to suffer from chronic diseases such as high blood pressure, are at the greatest risk for contracting tuberculosis, and, unfortunately, are the least likely to get regular health check-ups (Bryant, 2002). While birthrates for Georgian teenagers aged 15-19 have been on the decline as a whole, the rate for young Latinas has been on the rise. It is now almost 4 times that of non-Hispanic whites and twice the rate for African American females (Georgia Department of Human Resources OASIS Database 2002, as cited by G-CAPP, 2004). Young Hispanic men, many of whom fill jobs as day laborers and construction workers, are also at great risk for serious health problems. The Occupational Safety and Health Administration (OSHA) reported that in the year 2000, Hispanics constituted 41 percent of Georgia's construction-related deaths.

For many of Georgia's Hispanics, particularly those that are undocumented immigrants, Medicaid is limited to emergency use only. In order for someone to qualify for Medicaid, they must first be a resident of Georgia. Immigrants that have been in the United States lawfully for more than five years qualify for all Medicaid services, as well as refugees, Cubans and Haitians immigrants, and children and spouses of military veterans and those on active duty. There is, however, still one major problem facing documented immigrants. With changes to Medicaid eligibility made in The Personal Responsibility and Work Opportunity Reconciliation Act of

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1996, the incomes of those individuals sponsoring the documented immigrants is viewed as income available to the immigrant, and therefore, this availability of income often makes the immigrants ineligible for Medicaid benefits (Ku and Kessler, 1997).

Immigrants that are undocumented or have not been here lawfully for at least 5 years are only eligible for what is known as emergency Medicaid. An emergency is defined as a state in which the absence of immediate medical attention might reasonably result in the impairment or dysfunction of the person's bodily functions and organs (Ku and Kessler, 1997). In fact, most of the emergency care to undocumented immigrants in America falls into the category of labor and delivery. According to Georgians for Immigration Reduction (2003), Georgia taxpayers spent \$23 million on deliveries of babies to undocumented parents in 2002. However, prenatal care is not covered as emergency care, which may explain why Hispanic women are least likely to seek medical attention during pregnancy.

Hispanic children born in the United States are eligible for Medicaid since they are U.S. citizens. Hispanic youth account for 3.8 percent of all enrollees in Georgia Medicaid, 3.6 percent of recipients, and only consume 2.7 percent of all Medicaid expenditures in the state of Georgia (American Academy of Pediatrics/Department of Research/Division of Health Policy Research 1996).

The exact impact of uninsured Hispanics on Georgia's medical system is still unclear. What is apparent is the fact that Georgia's public hospitals are having a harder time making ends meet. Facilities in rural Georgia have either reduced services or closed down altogether (Smith 2004). Even in Atlanta, Grady Hospital is facing financial troubles. An uninsured individual residing outside of Fulton or DeKalb counties who seeks non-emergency care must now pay between \$50 and \$75 for a visit, plus additional fees calculated on a sliding scale for other services such as lab work and x-rays. Officials at Grady Hospital say approximately 13,750 individuals who live outside of the two counties seek medical care at the hospital, accumulating a total of \$10 to \$20 million in unpaid bills (Guthrie, 2004). But again, it is important to note that these costs arise from all uninsured patients and not only from Hispanics or immigrants.

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Concerned about the costs imposed by undocumented immigrants on the health system, U.S. Congress asked the General Accounting Office (GAO) to conduct a thorough study of the issue. The GAO surveyed 503 hospitals nation-wide and also interviewed hospital and Medicaid officials in 10 states (including Georgia) summarizing their findings in a 2004 report. The GAO found that it was not possible to discern to what degree undocumented immigrants received medical care, the type of medical care or the amount of “uncompensated care costs.”⁷ Basically, the problem is that hospitals do not collect information on the immigration status of patients. Nevertheless, GAO researchers had hoped to get an estimate from records of patients that did not write down a social security number. Unfortunately, an insufficient number of hospitals surveyed, only about 39 percent, were able to provide these data. Hence, the GAO did not want to draw conclusions based on such a small sample.

Still, hospitals have complained about high and increasing uncompensated care costs (especially in areas near the U.S.-Mexico border).⁸ There is some federal funding for this, although in the past it has mostly gone to the states’ Medicaid fund and not directly to hospitals. First, Medicaid costs for emergency treatment are shared by the state and federal governments. Second, some hospitals that treat a relatively high number of low-income patients (undocumented immigrants would presumably be part of this group) can receive additional funding under Medicaid’s disproportionate share hospital (DSH) adjustments program. Third, the federal government’s Balanced Budget Act of 1997 provided \$25 million from 1998 to 2001 to some states to help cover costs of emergency treatment provided to undocumented immigrants. According to the GAO (2004) report, states used these funds for their share of Medicaid expenditures and not to reimburse hospitals for uncompensated care costs. According to recent legislation under the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, \$250 million per year has been appropriated to be used for payments to hospitals and other emergency care providers

⁷ “Uncompensated care costs” are those costs for which hospitals receive no payment from either the patient or the insurer.

⁸ Interestingly, uncompensated care costs were not as large a share (5 percent) of total hospital expenses as one might presume (GAO, 2004).

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over the 2005 to 2008 fiscal years.⁹ These new funds will also carry some incentives for health care providers to collect more information on undocumented immigrants.

In Georgia, total Medicaid expenditures (federal plus state) rose 44 percent between 2000 and 2002. While emergency Medicaid expenditures in Georgia are a small portion of total Medicaid expenditures (less than 1 percent), there was a large increase in emergency Medicaid expenditures of 349 percent between 2000 and 2002.¹⁰ This sharp increase might be due to the growth of the Hispanic population. However, the research reviewed here shows that a reliable estimate of the impact of Hispanics and undocumented workers on health care costs is very difficult to produce for lack of good data.

Aside from low insurance coverage, an important reason why Georgia's Hispanics are at greater risk for health problems is the lack of information and services available to the Spanish speaking population. The Andrew Young School of Policy Studies' Health Policy Center recently established the Northwest Georgia Healthcare Partnership in Murray and Whitfield counties as part of the Access Georgia Rural Health Initiative. These two counties are known for their carpet production industry. The program provides both medical and dental services to the growing Hispanic population in these counties, as well as educates children about teen pregnancy and communicable diseases (Smith, 2004).

Georgia State University is not alone in its endeavors to assist the growing Hispanic population. Four counties in Southwest Georgia: Brooks, Grady, Mitchell, and Early, are participating in the Southwest Georgia Regional Cultural Awareness Initiative. With over 2,000 residents who are not proficient in English, the Initiative will ensure that translators are available to all of these patients seeking services at the area's hospitals and health departments. South-central Georgia, another rural area

⁹ According to the GAO (2004), these funds are to be distributed as follows. Two-thirds will be distributed according to the proportion of all undocumented immigrants residing in the state. Georgia is home to about 3 percent of all undocumented immigrants in the US, so eligible providers in the state would receive about \$5 million per year. The remaining one-third would go to the six states with highest number of apprehensions mostly states on the U.S.-Mexico border.

¹⁰ Total emergency Medicaid expenditure (federal plus state) in Georgia in 2002 was \$62 million (GAO, 2004). Total Medicaid expenditures were \$10.409 billion (6.544 state + 3.865 federal) according to CRS (2005).

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comprised of 10 counties, has also recognized the need for expanding translation services. At one time, the whole ten-county area was served by one translator. Now, recognizing the need for expanded services, the counties have created the Language Links to Healthier Families, a program that will train bilingual individuals to serve as interpreters in the medical setting (U.S. Department of Health and Human Services – Health Resources and Services Administration 2003).¹¹

The growth of the Hispanic population in Georgia raises difficult issues regarding health care. On the one hand, there are concerns about increasing health care costs for natives and the burden this potentially places on the state's budget (Badie, 2003). On the other hand, there is a recognition that failing to address health issues of Hispanics now may result in greater costs in the future for both the state and the Hispanic population as a whole (Peabody, 2003). The status of Hispanics' health in Georgia boils down to improvements in four areas. According to Badie (2004), for Hispanics, healthcare must become more accessible, more available, more affordable, and, for society, the needs of Hispanics must become more accepted.

¹¹ In addition, language barriers in work safety are being addressed. Despite the large presence of Spanish-speaking men in the construction industry, it was not until October of 2003 that OSHA conducted safety and training courses for Georgia workers in Spanish. The training was overseen by Georgia Tech, with a local Hispanic business woman drafting the educational materials in Spanish (Badie 2003).

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IV. Labor Market

Perhaps the most important reason for Hispanic migrants to come to the U.S. is to obtain employment and to earn higher wages than they would in their countries of origin. The increased numbers of workers in the labor market may bring some concerns to the native population: Will an increase in Hispanic immigrants displace native workers and/or depress wages for natives? This section examines the evidence from various studies on these questions. In addition, some data on job growth and unemployment rates for Georgia are presented at the end.

A. Will An Increase in Hispanic Immigrants Displace Native Workers?

There is a large amount of research about the effects of immigration on the U.S. labor market outcomes. While an influx of Hispanic immigrants in large numbers occurred in Georgia only in the last 10 to 15 years, it occurred earlier in other regions in the country (e.g., in states bordering Mexico). There have been many studies in the economics literature analyzing the question of job displacement using data generated in these regions or in the country as a whole.

Fix and Passel (1994) summarize the findings of various studies. They conclude that the effects of immigration on employment of natives range from *no effect* to a *small negative effect*. For example, one of the surveyed studies, Grossman (1982) uses 1970 census data for metropolitan areas and finds that if the number of immigrants increases by 10 percent, the number of employed native workers decreases by 0.8 percent. Hence, while there is an effect of displacement for the native workers, the effect is not large. Other studies with different data sets or methodology have similar findings.¹² What explains these results, which at first

¹² The following are some of the studies surveyed. Using 1980 census data and concentrating on metropolitan areas, Borjas (1986) finds that “increasing the immigrant share of a local labor market from 10 to 20 percent, produces declines in the native labor force participation of less than 1 percent.” Sorensen et al. (1992) use 1980 census data and find that an increase in the share of the population being foreign born has no effect on the number of weeks worked by native born workers.

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appear to conflict with common wisdom? One explanation is that immigrants also create jobs since a portion of their wages or earnings (net of any remittances abroad) are spent on goods and services locally. They spend on renting or buying housing, food, clothing, transportation, etc. Another explanation is that immigrant workers and native workers may not be necessarily in direct competition. Given that immigrants have presumably less English fluency and less experience in working under industrial-country business standards and practices than natives, their labor markets are separate or “segmented.” Hence, an influx of immigrants would mostly affect the *immigrant* labor market and not the native market. In fact, Borjas (1987) finds that a 10 percent increase in the number of immigrants reduces the wages of *earlier* immigrants by about 10 percent. In another study, Lalonde and Topel (1991) arrive at very similar results. In summary, researchers have found negligible effects of immigration on displacement of natives.¹³

While the results above apply to overall labor market outcomes, a majority of recent immigrants, as in the case of Georgia, tend to be less-skilled workers. It seems then that less-skilled immigrants would come in direct competition with less-skilled native workers. Using data from the 1970 and 1980 census, Altonji and Card (1991) find that an increase in the immigrant share of the population of 10 percent is associated with a reduction in the number of low-skilled native workers of 2.8 percent. Conversely, DeFreitas (1988) finds no effect on employment using a different data set. An overview of several studies of this issue suggests that immigration has in fact some adverse effects on low-skilled natives. These effects may not only be on employment, but also on wages which is discussed in a subsection below.

¹³ One caveat to the above results is that out-migration of *native* workers may occur as a result of increases of immigrants in a region. As native workers move out of a region, they are no longer counted in that region’s labor market. Fairlie and Meyer (2003) focus on the self-employed market (typically small business owners), which they claim does not suffer from the out-migration drawback. They refer to census data showing that the self-employed are less mobile and more likely to settle in one locality. They also refer to the 1990 census data which shows that self-employment rates are 23 percent higher in immigrants than in natives. They do find evidence for self-employed immigrants displacing self-employed natives, but find no evidence of an effect on self employed native’s earnings.

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B. Will An Increase in Hispanic Immigrants Depress Wages for Natives?

Another important concern for native workers is how wages are affected with immigration. According to economic theory the effect can be positive or negative. Specifically, Orrenius and Zavodny (2005) explain that the effect depends on the degree of substitution or complementarity between immigrants and natives. If immigrants are substitutes for native workers, an influx of immigrants will depress wages for natives. Conversely, if immigrant workers are complementary to native workers, increased immigration will lead to higher wages for natives. The effects are larger the higher the degree of substitutability or complementarity.¹⁴ This degree of substitutability is likely to be different for different skill levels. For example, in low-skill occupations like harvesting crops, the degree of substitution may be large. High-skilled occupations, on the other hand, may have low degrees of substitutability such as, for example, nursing, as this profession requires formal certification and likely some level of English fluency.

Orrenius and Zavodny (2005) combine Current Population Survey (CPS) data with INS data and examine the issue using various statistical procedures.¹⁵ They find that wages of high-skilled native workers (“professionals”) *rise* with an increase in the immigrant share of the population: a 1 percentage point increase in the immigrant share is associated with a 0.25 percent increase in wages for the high skilled natives.¹⁶ Conversely, in low-skilled (“manual labor”) occupations, the effect of immigration on native wages is *negative*, but small. A 1 percentage point increase in the immigrant share is associated with a 0.08 percent *fall* in wages for low-skilled natives. Using alternative methods to examine the strength of their findings, Orrenius and Zavodny (2005) get very similar results. They conclude that lower-skilled workers earn about

¹⁴ This analysis holds using some common assumptions within the framework of production theory. These assumptions include holding the capital stock the same, constant returns to scale in production, and a labor supply that is not perfectly elastic with respect to wages.

¹⁵ The statistical analysis in Orrenius and Zavodny (2005) uses state-of-the-art methods within this literature as it combines multi-year, skill-level analysis with the more common single-year, cross-area approach.

¹⁶ For illustration, high-skilled immigrants were estimated to be about 6.4 percent of all workers in the U.S. in 1994-2000 (Orrenius and Zavodny, 2005).

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0.74 percent lower wages as “a result of the presence of all foreign-born workers in that occupation.”¹⁷ The following back-of-the-envelope calculation may be useful to illustrate their findings. Suppose a low-skilled worker earns \$7 per hour, which working 40 hours per week yields an annual gross wage income of \$14,560. A 0.74 percent higher annual wage, which the workers would get if there were not any foreign-born workers in the same occupation, yields \$14,668. Hence, this native worker would earn \$108 more per year. Consequently, in low-skill occupations, the effect of large reduction in immigrants does not raise wages by much for natives.

Fix and Passel (1994) summarize a number of other papers in this literature. Overall these studies are pretty consistent as they find that the effects of immigration on wages are small, if any, and that the changes in wages are largely determined by other factors besides immigration.¹⁸

One potential drawback of many of the studies in this literature is their use of aggregate data which may possibly not tell the whole story. Fortunately, there are a number of other studies that examine industry-specific effects. Their findings are not uniform. One group of studies finds small or negligible effects of immigrants displacing natives. For example, Bailey (1987) and Grenier et al. (1992) study the construction industry in New York and Miami. They find very little displacement as immigrants tend to be in lower-paid non-union jobs, while natives tend to be in union jobs.¹⁹ A second group of studies finds *positive* effects in terms of immigrants preserving jobs for natives when industries experience transitional changes. For example, Waldinger (1985) studies the apparel industry in New York where immigrants helped the industry keep some jobs in New York which may have otherwise been lost. Glaessel-Brown (1988) focuses on the textile industry in Lowell, Mass. finding that Colombian immigrants who were willing to work for low wages were instrumental in preserving jobs for low-skilled native workers in the same industry. Finally, a third group of studies does find evidence of displacement.

¹⁷ They also find that as immigrants assimilate over time (e.g., acquiring better English skills), they become more substitutable for native workers increasing the negative effect on natives' wages.

¹⁸ These studies include Butcher and Card (1991), Vroman and Worden (1992), and others.

¹⁹ There is also little displacement found in professional occupations like nursing (Levine, Fox, and Danielson, 1993).

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Bach and Brill (1989) actually examine the poultry processing industry in Georgia. They find that employers tried to replace native workers with Mexican immigrants because employers believed that Mexican workers had lower turnover rates. Similar displacement effects were found by Huddle (1992) in the construction industry in Houston where illegal immigrant workers displaced both native and legal immigrants.²⁰

How would the experience in specific industries be summarized? The effects of immigration on native workers depend on industry characteristics, so displacement may or may not occur.

This section has so far summarized the research on potential adverse effects of immigrants for the US labor market. However, the potential positive effects of immigrants for the labor market also deserve mentioning. As Fix and Passel (1994) state, there is much less work published on this topic, but the following are some of the findings. First, immigrants may contribute to create or keep jobs in the U.S. As previously mentioned, their spending on housing, transportation, food, services is part of the economy's aggregate demand. Buying such goods and services raises overall employment as businesses experience higher demand for their goods. As discussed in the introduction, Hispanic buying power in Georgia is estimated at \$10 billion (Selig Center for Economic Growth, 2002), which is roughly 3 percent of Georgia's Gross State Product (GSP).²¹

An additional positive effect of immigration is that businesses in some cases could choose to move operations abroad if they do not have access to cheaper labor provided by immigrants. This has been documented by Muller and Espenshade (1985) who find that the number of jobs lost in L.A. in 1970-1980 would have been near 100,000 if Mexican immigrants had not arrived in the numbers they did. Still, there are some areas where the contribution of immigrants has not been documented but is apparent: for example, the revitalization of run-down areas as immigrants move

²⁰ There is also evidence that the condition of the labor market matters for displacement or wage effects. When the labor market is in surplus, competition between natives and immigrants is higher than when the labor market is in a period of labor shortage (Glaessel-Brown, 1988).

²¹ According to the BEA data, Georgia's GSP in 2004 was about \$343 billion.

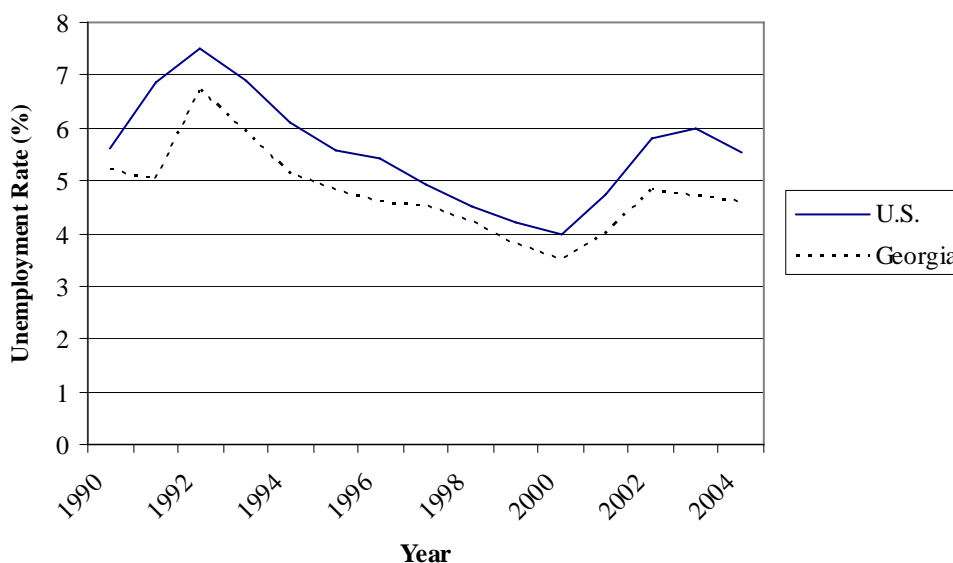
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in and the increase in foreign investment into the US to start ventures that serve the large immigrant community.

C. Georgia Job Growth and Unemployment Rates

This section presents some basic statistics of Georgia's labor markets. First, Figure 1 plots Georgia's unemployment rate versus the U.S. national unemployment rate from 1990 to 2004. Georgia's unemployment rate has been lower than the nation's over the whole 15-year period. Further, variations in Georgia's unemployment rate appear to be very related to variations at the national level. Also, unemployment rates do not appear to have increased on average over that period. While an in-depth statistical analysis would have to establish this properly, it appears from Figure 1 that the large increase in Hispanic immigrants in the last 15 years has not affected the unemployment rate in the state (or in the nation).

FIGURE 1. UNEMPLOYMENT RATES 1990-2004



Source: Bureau of Labor Statistics (various years).

Data at the national, state, and metropolitan statistical area (MSA) are presented in Table 3. Three time periods of equal length are presented for comparison: 1990-1994, 1995-1999, 2000-2004. We can focus on three of these

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TABLE 3. JOB GROWTH AND UNEMPLOYMENT RATES

	-----Job Growth (%)-----			--Unemployment Rate (%)--		
	1990-94	1995-99	2000-04	1990-94	1995-99	2000-04
U.S.	4.4	10.0	-0.2	6.6	4.9	5.2
Georgia	9.0	12.2	2.6	5.6	4.4	4.3
<i>Georgia MSA</i>						
Athens-Clarke County	5.3	7.2	6.5	4.5	3.0	3.4
Atlanta-Sandy Springs- Marietta	11.7	16.9	1.9	5.1	3.6	4.2
Albany	4.8	3.1	0.8	7.9	7.1	5.1
Augusta-Richmond County	0.8	4.2	4.1	6.3	6.2	4.8
Brunswick	4.2	10.3	7.5	5.1	4.0	3.9
Columbus, GA-AL	5.0	11.1	-2.2	6.3	4.9	5.0
Dalton	15.9	6.8	0.1	5.3	3.8	4.1
Gainesville	21.2	12.6	6.2	4.8	3.0	3.6
Hinesville-Fort Stewart	10.7	12.9	11.8	7.0	6.6	5.2
Macon	1.3	-0.8	1.8	5.6	5.2	4.5
Rome	10.7	0.6	7.7	6.2	4.8	4.4
Savannah	4.2	7.6	8.1	5.3	4.6	3.8
Valdosta	7.8	13.5	10.5	4.7	4.0	3.9
Warner Robins	7.4	5.7	10.4	4.6	3.8	3.6

Source: Bureau of Labor Statistics (various years).

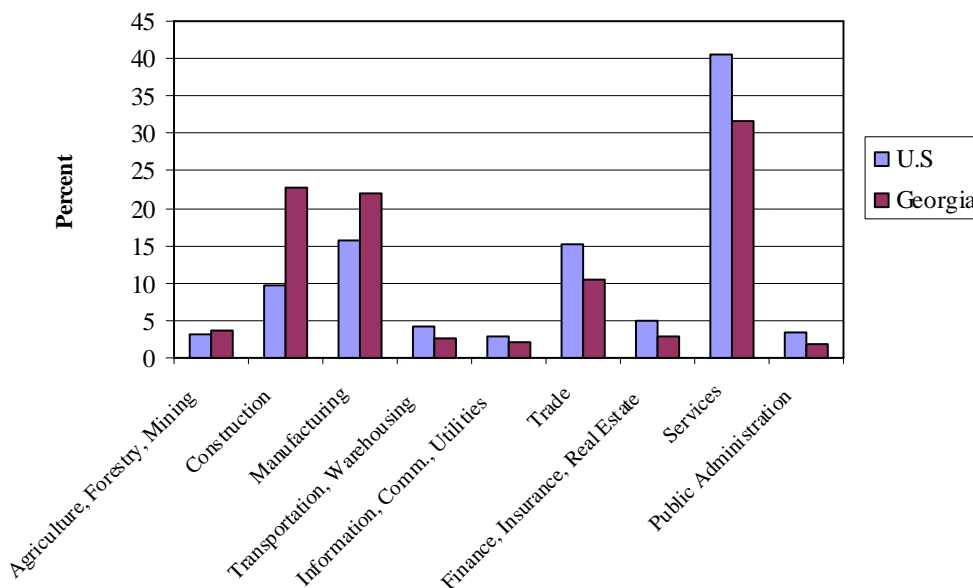
MSA's that have anecdotally experienced large influxes of Hispanics: Atlanta, Dalton, and Gainesville. In terms of unemployment rates, these three MSA's show lower rates than the state and national averages in all three periods.

In terms of job growth, Atlanta experienced double-digit increases in 1990-94 and in 1995-99 that were higher than the state and national averages. In the later period, 2000-04, Atlanta's job growth was below the state's average but higher than the national average. A similar pattern is observed in Dalton and Gainesville, although job growth in Gainesville far exceeds the state and national averages. While Dalton and Gainesville have had higher job growth than the state average, job growth has declined from the earlier to the later periods. Again, it is left for future in-depth statistical analysis to establish how much of this is due to immigration and how much to other factors like changes in the major production sectors in these MSAs or changes in the national business cycle.

Which are the sectors where Hispanic workers concentrate? Figure 2 presents some data from Kochhar, Suro and Tafoya (2005) compiled from the 2000 Census. The data shows the percent of Hispanic workers by industry at the national and state

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FIGURE 2. SECTORAL CONCENTRATION OF HISPANIC WORKERS



Source: Kochhar, Suro, and Tafoya (2005).

levels.²² The largest concentration of Hispanics is in the service industry both in the U.S. overall (40.5 percent) and in Georgia (31.6 percent).

Incidentally, Kochhar, Suro and Tafoya (2005) show that other southern states with increased Hispanic migrant population in the last 10 or 15 years have a similar share of Hispanics working in the service sector.²³ There are two sectors where the concentration of Hispanics in Georgia exceeds that in the U.S.: construction and manufacturing. It would appear that construction and certain sectors of manufacturing experienced a boom in the Southeast in the last few years attracting many Hispanic workers. Finally, it is interesting to see how the sectors in which Hispanic immigrants work change over time. A study of California (CCSCE, 2005) shows that the sectoral employment profile of second-generation Hispanic immigrants (i.e., the children of the first-generation migrants) is very similar to

²² The classification of industries follows the North American Industrial Classification System (NAICS)

²³ This is also the case in other southern states including Alabama, Arkansas, North Carolina, South Carolina, and Tennessee.

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native-born Americans. Many move out of construction, manufacturing, and services and into management, the professions and sales. The second-generation of Hispanics immigrants in Georgia has mostly not yet reached working age given the relatively recent influx. In this regard, how educated the second-generation becomes will be an important factor determining which sectors they can work in and how much they earn.

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V. Financial Services

The financial services market has also felt the effects of the growing Hispanic population. Naturally, there has been an increase in demand for financial services. This section focuses on the increased participation of Hispanics in the official financial sector, their access to credit for mortgages, and their access to credit for business investment.

A. Increasing Participation in the Official Financial Sector

From the perspective of the financial sector, the Hispanic population offers a tremendous growth opportunity. The Hispanic population is projected to grow by 258 percent by the mid century compared to a growth of 50 percent for the nation as a whole. At that time, Hispanics will comprise 22 percent of the U.S. population. Although Hispanic incomes are generally lower compared to the overall U.S. population, Hispanics have 1.1 million households (13 percent) with incomes of \$75,000 and above (Banking Strategies, 2003). The average age in the Hispanic community is lower than that in the population at large which is important because younger customers tend to use more banking products and thus make for more profitable customers.

In addition, a large portion of the Hispanic households are yet to be brought into the official financial sector. At present, only 56 percent of Hispanics have a bank account compared to 90 percent for the overall population (Banking Strategies, 2003). Part of the reason for this may be their low income, but an underlying reason may be their traditional distrust of financial institutions. Many of the immigrants come from countries which have frequently devalued their exchange rates, had high inflation rates, and have frozen bank accounts from time to time. As a result, only 20 percent of the population in Latin America has bank accounts. Considering this, the 56 percent ownership of bank accounts by Hispanics in the U.S. is a great improvement and a reflection of the confidence in the stability of the U.S. financial sector. Nevertheless, Hispanic bank account ownership clearly has room to grow. Remittances are another potential source of income for the financial industry. The

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volume of remittances from Hispanics in the U.S. to Latin America is \$24 billion per year, \$9 billion to Mexico alone (Forbes, 2003a). Much of those remittances now go through money transfer firms like Western Union. Commercial banks have been trying to enter this business in the last couple of years.

It is therefore understandable that a number of banks are making strong efforts to gain footing in the Hispanic community. The leaders in this area include Bank of America, Wells Fargo, Citigroup, FleetBoston, U.S. Bancorp, Wachovia, HSBC, and Fifth Third Bancorp (Banking Strategies, 2003). Smaller local banks are also participating in this expansion. Examples in Georgia include the Banco Familiar branch of the Gainesville Bank and Trust of Gainesville and the National Bank of Gainesville both of which are in the center of the rapidly growing Hispanic community in Gainesville and target that population. Bank of America, which has been the leader in these efforts has embarked on a \$1.5 billion campaign to attract Hispanic customers. Bank of America has also purchased a 25 percent stake in the third largest Mexican bank, Grupo Financiero Santander Serfin in the hopes of lowering the cost of remittances and encouraging the opening of deposits by Hispanics in the U.S. (Forbes, 2003b). Other ideas that have been implemented or are in the process of implementation are the issuance of ATM cards which can be used both in the U.S. and Mexico, offering bilingual web-sites, bilingual documentation, hiring bilingual staff, and participating in programs that educate Hispanics on the process of opening a bank account, applying for credit, etc. A major issue, which is still under debate at the Federal level is whether to allow the use of Mexican documents, the so called *matricula consular* as an ID in opening bank accounts in the U.S. While controversial, this policy would likely lead to a transfer of savings to the official financial sector. Several banks in Georgia, such as Wachovia, have already implemented this policy.

Why are these efforts by the banking industry important for the state of Georgia? First, increasing client base is important for the financial services industry which is an important part of the Georgia economy. Second, attracting deposits into the official financial sector provides additional liquidity for credit financing and makes it easier for Hispanics to obtain credit after having established a banking

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relationship with a financial institution. Third, the transfer of funds into the official sector may lead to reduction in crime against Hispanics. Otherwise, immigrants with large holdings of cash are a ripe target for robberies.

B. Access to Credit: Mortgages

Only 46 percent of Hispanics are homeowners, which is below the national average of 67 percent. Hispanics, both native born and immigrant, are nevertheless buying into the American dream of homeownership. Twenty-eight percent of immigrants currently renting report that buying a house is their top priority, compared to ten percent of all adults who rent (Myers and Lee, 1998). Immigrants speaking English at home were more likely to purchase houses which shows that, with time, home ownership will increase for recent immigrants. Regardless of ethnicity, immigrants tend to have between 10-16 percent lower rates of homeownership. Given the large number of Hispanic immigrants, it is not surprising that the group as a whole has such low homeownership rates (Coulson, 1999). Despite the average Hispanic's income being slightly higher than the average African-American's income, homeownership rates for African-American is also slightly higher (Coulson 1999). With respect to the type of housing Hispanics occupy, native born Hispanics live in houses similar to those of whites with similar economic backgrounds. However, because of lower average incomes, most Hispanics live in housing which is less expensive compared to that of Caucasians. How much of these differences in homeownership can be explained by differences in access to mortgage credit?

Some authors believe that discrimination in lending markets is prevalent. Mortgage loan officers are allowed to charge overages, an amount above the minimum interest rate accepted by the lender, not to exceed two percent, from which the loan officer receives additional commission. While Whites are more likely to be charged an overage, the average overage is still higher for Hispanics. Overages are also higher for refinancing loans, where a disproportionate number of self-employed Hispanics apply for loans (Black et. al. 2000).

Other economists believe that ethnicity is less of an issue. Bostic (1996) argues that differences in loan pricing and access are found only in applicants at the

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margin. Applicants with high incomes and good credit reports are not treated differently based on race or ethnicity. Differences emerge for lower income individuals; lower income Whites are more likely to receive loans and to have better credit terms compared to lower income Non-White individuals, including Hispanics. Boyes et. al. (1986, p. 217) concludes that for Hispanics “the probabilities of being granted credit and of defaulting are not significantly different than for Anglos, given any set of financial characteristics.”

Financial institutions are increasingly tapping into this market. Homebank has a Spanish language-only division: *Homebank en Español* that processes mortgage loans for Hispanics. Wells Fargo and other banks are also offering similar services.²⁴ Likewise, there has been an increase in real estate agents that specialize in serving Hispanics as well as law firms that conduct home purchases or re-financings in Spanish.

C. Access to Credit: Business Financing

Access to external financing is an integral part of the expansion of Hispanic-owned businesses in terms of the number and average size of firms. Hispanic business ownership contributes to the growth in incomes of that population and to meeting the particular demands for goods and services existing in predominantly Hispanic neighborhoods. Hispanic-owned businesses employ Hispanic workers in disproportionately large numbers and encourage recent immigrants to settle in a community. Lack of financing is an important impediment to the entry of Hispanics into self-employment, to firm expansion after entry, and is a strong predictor of business failure. The relationship between access to financing and self-employment has been studied extensively by Evans and Jovanovic (1989) among others.

Cavalluzzo and Cavalluzzo (1998) is perhaps the most comprehensive analysis available of differences in credit access for minority owned firms in the U.S. Cavalluzzo and Cavalluzzo (1998) report a large difference in the denial rates for

²⁴ Mortgage loans that only required a “Tax ID” (a common form of identification among undocumented immigrants) became popular in 2002-2003. These were typically Adjustable Rate Mortgages (ARMs) that carried interest rates that were about 2 percentage points higher than market rates.

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small business loan applications of Hispanics compared to Whites. The probability of denial for Hispanics is 37 percentage points higher than the probability of denial for Whites and is close to that of African-Americans. This difference is explained to some extent by firm characteristics, level of income, and credit history but is not eliminated completely by controlling for those factors. However, Cavalluzzo and Cavalluzzo (1998) find that differences in credit application rates and credit denial rates between Whites and Hispanics decline significantly in credit markets where financial firms are engaged in stronger competition among themselves. The increase in the number of banks which target the Hispanic population in Georgia will lead to greater competition in financial markets and will reduce the credit constraint on Hispanics.

Several additional factors may increase access to business credit for Hispanics over time. As we pointed out earlier, banks are making strides to attract Hispanics to the formal financial sector. Cavalluzzo and Cavalluzzo (1998) show that access to credit is enhanced significantly for individuals with an established relationship with a commercial bank. Increased participation by Hispanics in the formal financial sector will increase access to personal and small business financing. Furthermore, Aaronson et. al. (2000) show that the likelihood of receiving business credit by a Hispanic business is positively associated with the share of Hispanics in the overall population of that metropolitan area. They also find that working with a Hispanic supplier in locations which are predominantly Hispanic is associated with greater access to credit for Hispanic businesses. Thus, while differences in business credit exist, they might decline over time with increased bank competition, entry of Hispanics into the formal financial sector, and the growing concentration of the Hispanic population in Georgia.

VI. The Fiscal Impact of Immigration

One of the issues of most concern regarding immigration is the impact that it has on government budgets. Which publicly provided services are immigrants eligible to use? Which taxes are collected from immigrants? What is the burden that immigrants place on government finances? How is the burden of paying for these services split between the federal, state, and local governments? This section discusses some issues relating to those questions.

Eligibility for public services can be summarized as follows. Authorized immigrants (like legal permanent residents) are generally eligible to use all public services. Conversely, undocumented immigrants are only eligible for some services. More specifically, the National Immigration Law Center (NILC) website (see Reference section for URL) presents a summary of eligibility for federal government programs. Federal programs make a distinction between “qualified immigrants” and “not qualified immigrants”. “Qualified immigrants” include lawful permanent residents (which are likely the largest share in this category); refugees; Cuban and Haitian entrants; and battered spouses and children under some conditions. “Not qualified immigrants” are then individuals who do not fall in the previous category, presumably most are undocumented. As a result of the 1996 Welfare Reform, the access of immigrants to many services was restricted. “Unqualified immigrants” are generally no longer eligible for most services. In addition, even most “qualified immigrants” have now a 5-year waiting period before they can access some services.

The following is an overview of eligibility in the major federal programs. First, only “qualified immigrants” are eligible for social security, which means that almost all undocumented immigrants cannot receive social security.²⁵ Note, however,

²⁵ There are some exceptions of “Not qualified” immigrants being eligible for social security (see NILC summary).

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that many undocumented workers obtain work using a social security number (SSN) that is either fake (non-existent) or that belongs to someone else (likely a native). Employers will routinely deduct social security taxes (FICA) from the paychecks of undocumented workers and, along with the employer's portion of the contribution, send them to the Social Security Administration. These revenues become part of the general social security fund and are held in a "suspense file." According to Sheridan (2001), the amount in these accounts has steadily grown and was about \$20 billion between 1990 and 1998.

Second, Medicare has similar eligibility requirements to social security. Within the Medicare program, there is a distinction made between "Premium Free" Part A (hospitalization) and Premium "Buy-in" Medicare. Undocumented immigrants are not eligible for either type of Medicare. However, their paychecks are likely reduced by Medicare contributions as in the case of social security taxes. Third, all individuals regardless of immigration status are eligible for Emergency Medicaid (which includes labor and delivery of babies). Fourth, most undocumented workers are not eligible for Temporary Assistance for Needy Families (TANF) benefits (sometimes commonly referred to as "welfare benefits").²⁶ Fifth, most undocumented immigrants cannot receive food stamps.

It should be noted that several states have state-funded versions of the following programs: medical assistance programs, TANF replacement programs, and children's health insurance programs. Some immigrants that may not be eligible for the federal programs can access these. The state of Georgia does not have any of the three state-funded programs. According to NILC, in almost all the states that do offer such programs, the eligibility criteria is that the immigrant must be "qualified".²⁷

In addition to the services listed above, there are "pure public goods" that all individuals in the country can benefit from like national defense. An increase in the number of immigrants does not increase the cost of national defense or reduce the

²⁶ The only "not qualified" immigrants that can receive TANF are "victims of trafficking and their derivative beneficiaries."

²⁷ An exception is the state-funded children's health insurance programs in New York, Rhode Island, and Washington, which can be used by children regardless of immigration status.

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benefits to natives. There are also some public goods subject to congestion like police and fire protection, the legal system, and the prison system. Out of this list only the prison system has received attention in states with largest immigrant populations like California. Two of the most prominent services, education and health care, were not listed above because they were already discussed in detail in previous sections. Health care and education have received a lot of attention because they involve large expenditures for governments, especially for state and local governments.

How much does the government spend on providing public services for immigrants and how much do immigrants contribute? There have been several studies estimating these costs and benefits sometimes referred to as “fiscal balance”. Studies of the issue fall into two basic methodologies according to Lee and Miller (1998): the cross sectional approach and the longitudinal approach. The most popular has been the cross sectional approach which studies costs and benefits over a short time horizon, so it is static. Hence, it does not account, for example, for changes in service use or tax contributions over the lifetime of an immigrant or of his or her descendants. The longitudinal approach, on the other hand, does account for such changes over time, so it is dynamic. Strictly speaking, the longitudinal approach is the more appropriate, according to Hanson et al. (2002), due to the following reasons. This approach accounts for the changes in the net use of services over a lifetime. It also accounts for changes in the composition of new immigrants as regards to their age or skills, and it accounts for potential changes in fiscal policy over time. Nevertheless, most studies have used the cross sectional approach because it is somewhat simpler and requires making less assumptions about the future which are necessary in longitudinal studies. Another way to understand the difference between these two approaches is that cross sectional approaches study short term effects of immigration while longitudinal studies focus on long term effects.

U.S. Congress appointed a Commission on Immigration Reform which requested that the National Research Council of the National Academy of Science examine the fiscal impact of immigrants in detail. The leading academics in the field participated in writing several chapters of a two volume report: *The New Americans* (Smith and Edmonston, 1997) and *The Immigration Debate* (Smith and Edmonston,

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1998). One of the chapters in this second volume by MaCurdy et al. (1998) surveys the findings of seven recent cross sectional studies which find that overall immigrants are a “net fiscal drain on the government.” (p. 57). The actual dollar impact varies significantly depending on the region being studied (e.g., there are studies for particular cities, states, groups of states, or for the country overall) and the population being studied (just undocumented immigrants or all immigrants). However, these studies have the following problems according to MaCurdy et al. (1998). They do not account for the indirect effect of how the income of natives is affected by the increased number of immigrants. They also do not account for the new businesses, new jobs created as a result of more immigrants. Since, as stated above, the models are all static in nature (cross sectional), they cannot account for how the use of public services and payment of taxes vary over the lifetime of immigrants. For instance, K-12 education of immigrants enters the calculations as an expenditure only. These models fail to account, however, that higher educational levels will result in higher earnings and hence higher tax contributions and less public services usage once the immigrants’ children (often U.S. citizen if born in the U.S.) become of working age.

In order to account for some of these omitted issues, MaCurdy et al. (1998) propose that an adequate economic model would include at least the following features: a) multiple periods; b) three generations (young, middle aged, and elderly); c) workers distinguished by high and low skills; d) two consumption goods categorized by level of state tax; e) an underlying model of production and consumption; and f) a government sector detailed enough to capture the major categories of spending and taxation.

Despite the drawbacks of cross sectional studies, it is interesting to illustrate some of the magnitudes of the costs and benefits as computed by Lee and Miller (1998). This is a cross sectional study using data from the whole country that computes taxes paid and the cost of benefits at two levels of government: federal versus state and local. Table 4 summarizes their results for the impact on state and local governments presenting only the largest categories of taxes and benefits. Two populations are considered: i) Immigrants (legal and undocumented) and their concurrent descendants (children alive at the time of the study in 1994); and ii) All

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TABLE 4. FISCAL IMPACTS OF IMMIGRATION ON STATE AND LOCAL GOVERNMENTS FROM LEE AND MILLER (1998) (all figures in 1994 dollars in per capita basis)

	Immigrants and Concurrent Descendants	All Others
<i>Taxes</i>		
Sales	\$435	\$579
Income	\$387	\$513
Property Tax	\$387	\$452
Other taxes	\$311	\$397
Total Taxes	\$1,520	\$1,941
<i>Costs of Benefits</i>		
Education (K-12)	\$1,043	\$869
Medicaid	\$332	\$291
AFDC + other Welfare	\$190	\$127
Other benefits	\$632	\$457
Total Costs	\$2,197	\$1,744
Total Taxes - Costs	\$-667	\$197

Source: Lee and Miller (1998), Table 5-2.

others, that is, all native-born U.S. citizens. In terms of taxes, the largest collections from immigrants and their concurrent descendants is from sales taxes, state income taxes, and property taxes. In total, the immigrants pay \$421 (\$1,941 - \$1,520) less in taxes per person than natives. In terms of costs of benefits, the largest expenditures are on education (K-12), Medicaid, and welfare. Immigrants indeed use \$453 (\$2,197 - \$1,744) more in benefits per person than natives. The fiscal balance concerning state and local governments is then -\$667 for immigrants and \$197 for natives as Table 4 shows.

There are some caveats to these estimations: the estimates of fiscal impact include all legal immigrants as well as those undocumented. However, legal immigrants have earnings per person of roughly \$16,000 versus undocumented immigrants who earn an average of \$12,000 (Passel, 2005). Hence, tax payments of legal immigrants are likely to be higher, while their use of some benefits like Medicaid and welfare may be lower. In addition, this study was done using 1994 data, so the results are used as an illustration. It would not be appropriate to extrapolate the 1994 estimates to today's fiscal impact given that many new immigrants have come in and some perhaps left. It would also not be appropriate to extrapolate to one particular state, like Georgia, since the characteristics of the

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immigrant population in Georgia may be different from those in the U.S. in 1994. Other studies have found that the fiscal impact varies widely depending on the specifics of the state being studied.

It is also interesting to examine Lee and Miller's (1998) results for the fiscal impact of the federal government. A summary of these results is presented in Table 5. The largest tax contributions of immigrants to the federal government are for the income tax and FICA. The largest cost of benefits provided are for social security, Medicare, and Medicaid. Social security and Medicare are presumably mostly for legal immigrants who are eligible for them. Interestingly, the fiscal balance of immigrants with regard to the federal government is a positive \$1,258. That means that the federal government receives more in taxes than spends on immigrants unlike the state and local governments. This has been a major issue in the immigration debate as the state and local governments have complained that the majority of the burden of immigrant public service consumption is placed on them. The estimates in Table 5 then validate this claim.

TABLE 5. FISCAL IMPACTS OF IMMIGRATION ON THE FEDERAL GOVERNMENT FROM LEE AND MILLER (1998) (all figures in 1994 dollars in per capita basis)

	Immigrants and Concurrent Descendants	All Others
<i>Taxes</i>		
Income Tax	\$1,619	\$2,166
FICA	\$1,551	\$1,809
Other Taxes	\$1,855	\$2,686
Total Taxes	\$3,793	\$5,008
<i>Costs of Benefits</i>		
Social Security	\$612	\$1,344
Medicare (Total)	\$375	\$719
Medicaid (Total)	\$337	\$309
Other Benefits	\$1,211	\$1,296
Total Costs	\$2,535	\$3,668
Total Taxes Less Costs	\$1,258	\$1,340

Source: Lee and Miller (1998), Table 5-3.

While much can be learned from short-run fiscal impact studies like the ones described above, it is also interesting to examine the findings of long-run or longitudinal studies. Recall that long-run studies take into account the effects over

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time studying several generations. Lee and Miller (1998) and Smith and Edmonston (1997) are two studies that use this framework. There are two features that are key for their computations of long-run fiscal impact: the age structure of immigrants and their educational level. For illustration, Table 6 presents some of Smith and Edmonston's (1997) results.

TABLE 6. AVERAGE FISCAL IMPACT OF IMMIGRANTS AND DESCENDANTS BY EDUCATION LEVEL

Education Level	Immigrant Only	Immigrant Plus Descendants Over the Next 300 Years
Less than High School	-\$89,000	-\$13,000
High School	-\$31,000	\$51,000
More than High School	\$105,000	\$198,000
Overall	-\$3,000	\$80,000

Source: Smith and Edmonston (1997) as summarized by Hanson et al. (2000)

The average immigrant has an overall negative fiscal impact of \$3,000 over his or her lifetime. However, the long-run fiscal impact of the immigrants and his descendants over the next 300 years is a positive \$80,000. Observed educational level increases in the second, third, and subsequent generations are used to make projections that far into the future. Also note that the long-run impact varies with the educational level of the initial immigrant. Less than high-school level educated immigrants remain a net fiscal drain in the long-run, whereas more than high-school level educated immigrants have positive fiscal balance in the short-run and long-run.

According to Hanson et al. (2002), these estimates suffer from some limitations: they fail to account for potential changes in fiscal policy with regards to the national debt problems; and they do not account for an observed trend decrease in earnings of immigrants. Another longitudinal study, Auerbach and Oreopoulos (1999), finds that the overall effects of immigration are small when viewed with respect to the overall U.S. fiscal imbalance. They also find that the effects of the composition of the immigrant population (i.e., age and education structure) can have large effects. That is, an increase in the share of less educated immigrants can worsen the fiscal balance in the future.

We can summarize the findings of fiscal impact of immigration as follows. First, the overall effect of immigration on the fiscal balance of the country is small.

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Second, most of the negative fiscal balance falls on state and local governments. This is because immigrants pay more federal taxes and receive more state and local level funded services. Third, the educational level of immigrants and their descendants is perhaps the most important determinant of the long-run fiscal impact of immigration to all levels of government.

Finally, we can suggest some guidelines to future studies of this issue for the state of Georgia.²⁸ First, simple extrapolations from previous studies done for other states or for the country can yield severely misleading results. The reason is the large differences in each state's immigrant population characteristics and eligibility for public services. Second, both short-run and long-run frameworks should be used to obtain a true picture of costs and benefits over several generations as age, education and skill levels change. Third, the guidelines for a model suggested by MaCurdy et al. (1998) which were cited earlier should be followed.

²⁸ A policy brief by Coffey (2005) from the Georgia Budget and Policy Institute has recently estimated the average contribution of undocumented families in state and local sales, income, and property taxes.

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VII. Conclusions

The state of Georgia has experienced a large increase in its Hispanic population in the last 15 years. Georgia businesses in manufacturing, construction, services and other sectors have benefited from their labor—as have Georgia consumers. Yet, this demographic change has brought to the forefront several economic issues which are discussed in this report. One major conclusion is that state agencies need to increase efforts in collecting data identifying this population whenever possible. These data can then be used by researchers to provide adequate estimates of costs and benefits of Hispanics immigrants specific to the state of Georgia. The fiscal balance of immigrants is one question that has received much attention. There are no comprehensive estimates of this fiscal balance specifically for the state. Improved data collection would certainly help with such effort.

In designing policy to address the issues resulting from Hispanic growth, and in particular of undocumented Hispanics, state policymakers should weigh both short-term and long-term impacts. This demographic change has certainly brought increased costs to the state in the short-term, most notably in the education and health care areas. In the long-term, however, one crucial determinant of the effect of immigrants on government budgets is the educational level of their descendants. Low educational levels will almost guarantee that immigrant descendants will be a persistent burden on government budgets. Conversely, raising their high-school graduation rates and college graduation rates will yield positive fiscal balances for governments over time. Hence, future research should attempt to estimate the effects of Hispanic immigration both in the short-term and the long-term.

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Financing an Increased State Role in Funding K-12 Education: An Analysis of Issues and Options (Peter Bluestone, John Matthews, David L. Sjoquist, William J. Smith, Sally Wallace, and Laura Wheeler). This report presents an analysis of replacing school property tax with alternative state revenue sources [FRC Report 114](#) (October 2005)

Neighborhood Dynamics and Price Effects of Superfund Site Clean-Up (Douglas Noonan, Douglas Krupka and Brett Baden). This report uses census data to analyze the price effects of superfund site clean-up, inclusive of both direct price effects and indirect effects through clean-up's effect on neighborhood demographic transitions and reinvestment in the housing stock. [FRC Report/Brief 113](#) (October 2005)

Perfect Competition, Spatial Competition, and Tax Incidence in the Retail Gasoline Market (James Alm, Edward Sennoga and Mark Skidmore). This report uses monthly gas price data for all 50 U.S. states over the period 1984-1999 to examine the incidence of state gasoline excise taxes. [FRC Report/Brief 112](#) (September 2005)

The Research and Development Tax Credit for Georgia (Laura Wheeler). This report describes the existing Georgia State R&D tax credit and explores the implications of modifying its current design. [FRC Report/Brief 111](#) (September 2005)

Cooperation on Competition: The Multistate Tax Commission and State Corporate Tax Uniformity (W. Bartley Hildreth, Matthew N. Murray and David L. Sjoquist). This report explores how interstate uniformity of state corporate income taxes has varied over time, the role played by the MTC, and how likely it is that uniformity will be achieved. [FRC Report 110](#) (August 2005)

Tax Revenue Volatility and a State-Wide Education Sales Tax (John Matthews). This brief examines issues of revenue source stability raised by proposals to shift K-12 education costs from local property taxes to a state-wide sales tax. [FRC Brief 109](#) (June 2005)

Accountability for Economic Development Incentives in Georgia (Jeanie Thomas). This report identifies Georgia's major economic development incentives and other forms of public finance support and calls for a comprehensive evaluation of public expenditures in this area. [FRC Report/Brief 108](#) (July 2005)

Teen Childbearing and Public Assistance in Georgia (Lakshmi Pandey, Erdal Tekin and Sally Wallace). This brief examines the link between teen births and welfare. [FRC Brief 107](#) (May 2005)

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