LATINOS IN THE CALIFORNIA ECONOMY

Forthcoming in Latino Inequality: California’s Challenge, Andres Jimenez and David Lopez, editors, a project of the California Policy Research Seminar.

Manuel Pastor, Jr.
Latin American and Latino Studies
University of California at Santa Cruz

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Chicano/Latino Research Center
1156 High Street
Merrill College
University of California
Santa Cruz, CA. 95064

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Introduction

After a sharp recession in the early 1990s, the California economy has finally rebounded. Unemployment rates, after rising dramatically above the rest of the nation, have tapered back down toward the national level (see Figure 1). Employment growth has been impressive, with 1.6 million jobs added over the 1993 to 1998 period. In recent years, California, boasting Silicon Valley and multimedia in the North, motion pictures and biotechnology in the South, has been heralded as the home of high-tech and the “new economy.” The future is here – and it seems bright indeed.

<insert Figure 1>

Yet the optimism usually associated with economic growth has also been tempered by a rising awareness of the continuing trends toward inequality in the state (see Reed 1999, Benner, Brownstein and Dean 1999). According to most researchers, the divergence between the top and the bottom of the income scale seems to be rising even more rapidly in California than in the rest of the nation. While this is a worrisome pattern in general, it is especially challenging for California’s Latinos, most of whom are disproportionately concentrated in the lower end of the distribution of income, power, and opportunities.

With California seemingly poised for an era of future growth, it is worthwhile to question whether Latinos will fully participate in that growth. Despite very high rates of labor force participation, Latino poverty rates are significantly above those for the Anglo plurality. In an economy that increasingly values skills and connections, Latinos remain handicapped by low
Figure 1

Unemployment in California and the U.S, 1984-99

Percent Unemployed

Year


- California
- U.S.
education levels and limited social networks. As a result, the Latino population is securely positioned for a future in the state's "new economy" – but in low-wage employment.

Indeed, the analysis below indicates that, in the absence of policy action, current problems are likely to worsen over: while the Anglo population is disproportionately present in those industries which enjoy both above-median wages and above-median rates of projected employment growth, Latinos tend to be situated in industries which are likely to grow but where below-median wages are the norm. Thus, if California's wants to avoid a continuing economic division by ethnicity, policy makers will have to work hard to insure that the Latino population enjoys a full stake in the new economy.

This paper tackles these issues as follows. I begin with a brief review of employment and distributional trends in California, stressing the changing character of the economy and the trends toward a worsened distribution of income. I review the pattern by ethnicity as well as class, pointing to shifts over time in real household income. I also note the geographic pattern: much of the worsening inequality by ethnicity due to negative distributional shifts in Los Angeles County, the home to forty percent of the state's Latinos.

I then profile various key economic characteristics of California's Latinos, especially the striking contradiction between high rates of labor force participation and high rates of poverty. I also review other aspects of the economic experience, including health coverage, union membership, educational attainment, and the state of social networks. I offer a brief regression analysis of the determinants of Latino economic performance, stressing that shortage in human capital or education do not fully explain Latino poverty outcomes; I point instead to the
important role of unions and placement in certain sectors of the economy. I close this contemporary analysis by pointing to the growing but still limited presence and small scale of Latino-owned firms.

Finally, I turn to the future. Making use of a unique combination of three data sets, I break California's industries into four groups based on both wages and projected growth; as we will see, about 45 percent of Latino workers fall into the low-wage, fast-growth group but only around 15 percent are in the high-wage, fast-growth group; the comparable figures for Anglos are 34 percent and 26 percent. The pattern suggests that the challenge for Latinos is not whether they are positioned for growth but rather what sort of growth is coming their way. I conclude by exploring a series of policy recommendations that might help Latino residents be better positioned for fuller participation and higher rewards in the state's new economy.

The California Economy: Diverging Fortunes in the Golden State

In March 1998, New Yorker magazine offered a special issue on California. The lead article, "The Comeback," teased readers with a subtitle as follows: "A few years ago, California's economy was a study in decline. Now it's the model of the future."¹ When even New Yorkers admit the center of economic gravity has shifted, something is definitely afoot.

As Figure 2 shows, there was plenty of reason for the earlier pessimism. The 1991-93 dip in employment growth was initially driven by a national recession but California was especially

hard-hit by sharp cuts in defense and aerospace. As can be seen in the sectoral breakdown of Figure 2, manufacturing fell sharply over the early 1990s; even in 1998, the employment level in manufacturing is still below that achieved in 1990.

<insert Figure 2>

After the gloom and doom of the early 1990s, the California economy has emerged as the center of the world’s economic action. Hi-tech firms are launching the new internet economy, labor shortages are the rule in many parts of the state, and housing prices have surged to new highs, particularly in the rip-roaring environs of the Silicon Valley. The recovery, it seems, is firmly entrenched.

Much of the recent growth has come in the area of services. Overall, services have accounted for nearly 80 percent of the job growth over the 1993-98 recovery, and over 90 percent of the longer-term job growth since 1983. Naturally, wholesale and retail trade has essentially followed employment, rising in tandem with Californians’ ability to earn (see Figure 2). The sharpest increases have come in business services, a sector which includes software development: employment grew fifty percent over the 1993-98 period, well above the total employment increase of around 13 percent, and has more than doubled since 1983.²

A driving force in California's new economy has been the various information industries. While California’s economy represents only 12 percent of the nation’s total, the state accounts for 27 percent of the country’s workforce in the computer industry, 21 percent of those in high-tech manufacturing, 20 percent of those in the nation’s software industry, and over a quarter of

² Data taken from the state’s Employment Development Department; see www.calmis.ca.gov/
Figure 2. Employment in California, 1983-98

- total employment
- service
- construction
- manufacturing
- wholesale & retail trade
- business services
- government
those in the country’s biotechnology sector. Partly as a result of these new industries, California accounted for a whopping 37 percent of all venture capital invested in the U.S. in 1997 (Benner, Brownstein, and Dean 1999: 17-18).

To be clear, the information industries are not necessarily where most of the employment exists. Even in the heart of the new economy, Santa Clara County and the Silicon Valley, only thirty percent of the jobs are in high-tech, even using the broadest possible definition of that sector. Most jobs are in the local-serving sector and low-wage service jobs have often been the flip side of high-tech growth: software engineers working sixteen-hour days wind up needing restaurant, laundry, and childcare services, making low-wage employment a necessary complement to the thriving information economy.

Virtually everyone in California has felt the impacts of this new economy. For some, it has been a flexible bonanza of consulting contracts, initial public offerings, and explosive growth in wealth. For most workers, the fluidity of the changing economy has brought a rise in insecurity. Pressured by international competition and technological change, firms are constantly seeking to cut costs. Temporary employment has been on the rise; nearly twelve percent of the total employment increase between 1993 and 1998 was within temporary help agencies and contingent or independent contract employment has been skyrocketing outside these agencies as well.

The changing economy has brought diverging fortunes by class, race, and region. Figure 3 charts the shares of state income received by the top twenty percent and bottom forty percent of
households. For reasons detailed in the appendix, we break the series between 1994 and 1995; even if we discount the shift between those two years, the overall pattern of disqualification seen here is consistent with that found in several other studies (Reed 1999; Galpern 1998). In the earlier period (1991-1994), the economy was languishing: income shares improved for those at the top and fell for those at the bottom, reflecting the effects of reduced labor demand and employment on productivity, sales, and wages. The subsequent recovery led to nearly imperceptible improvement in 1996 and 1997, and the trend in 1998 – note that the top was gaining more than the slight improvement at the bottom – is not hopeful.

<insert Figure 3>

Is this distributional shift spread across all groups or is there a racial/ethnic pattern as well? Figure 4 examines the trends in real household income by race/ethnicity in California, again making use of a break between 1994 and 1995. As can be seen, there is a persistent and growing gap between Anglos and Asians on the one hand, and African-Americans and Latinos on the other. While the pattern is not simply due to immigration, immigration is a part of the story. In Figure 5, I remove all households headed by immigrants from the sample; note that Latino household income for U.S-born residents is now slightly above that of African-Americans. Still, Latino native and immigrant households showed only modest improvement over the period 1995 to 1998 while other groups fare better.

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1 The results are similar if we look at, say, the top ten and bottom twenty percent but the broader band at the top allows any topcoding issues to have a lesser effect on the calculations. The results are also similar if we exclude the top five percent of household incomes.

4 Interestingly, the pattern jumps upward in 1995 for Anglos and Asians and not so for Latino and African-Americans; this is because the former groups are more concentrated in the income categories where the shift in top-coding that is driving the decision to break the series could have the most impact.
Figure 3. Distribution of Income, California 1991-98
There has also been a divergence in economic fortunes across California's regions. Figure 6 offers a breakdown of average household income, adjusted to 1998 dollars, between 1991 and 1998; we examine only four broad regions since the sample sizes for other regions (such as California's Central Coast) are too small to draw any reliable conclusions. As can be seen from the figure, the Bay Area has done best during the recovery, particularly in the Silicon Valley-dominated boom years of the late 1990s. Los Angeles County's household income showed a sharp decline in the early 1990s, reflecting the fact that over seventy percent of the state's total job loss during the recession was felt in there.\(^5\) Real income was relatively flat in both the Central Valley and in the rest of Southern California (sans Los Angeles), with the agriculture-rich and income-poor Central Valley consistently hovering at about $10,000 below the Southern California average.\(^6\)

Of course, the performance of a region's average household income does not necessarily capture how Latino households are doing; if income inequality by race is particularly severe in a given area, then overall improvements may be coming at the cost of certain households. Figure 7 charts the ratio of Anglo household income to Latino household income in the four broad regions considered above; because of sample size problems, we do not consider the other less populous ethnic groups (African-Americans and Asians). There is considerable volatility in the various


\(^6\) For a more detailed analysis of conditions for Latinos in the Central Valley, see Allensworth and Rochin (1996).
Figure 4.
Average Real Household Income by Race in California, 1991-1998
Figure 5.
Average Household Income for Non-Immigrants by Race in California, 1993-98
Figure 6. Income by Regions in California, 1991-98
series, reflecting the small sample size for even these two groups. Still the general trends suggest that much of the widening gap between Latino and Anglo households is driven by the pattern in Los Angeles, a county which contains over forty percent of the state's Latino population (see Figure 8). Thus, addressing Los Angeles and its restructured and immigrant-dependent economy would be a key part of any agenda to address Latinos economic fortunes in the state.

<insert Figures 7 & 8>

Latinos and the California Economy

California has become a dynamic center of job creation. Such aggregate growth is supposed to improve the distribution of income, particularly as labor markets tighten and firms find it necessary to raise wages. However, income distribution has generally worsened over the 1990s. Geographic location within the state plays a role in the pattern since some places, such as the Bay Area, were better positioned to benefit from the "new economy." Racial patterns are also present: while the Latino poverty rate has improved slightly in recent years, it remains far above that of California's Anglo population (see Figure 9).

<insert Figure 9>

What explains the performance of Latinos in the California economy? Traditional

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7 Rodriguez (1996) is far more optimistic about Southern California, stressing the emergence of a Latino middle class. His definition uses median household income as a cut point; this then includes many large households with multiple earners of low wages earners. As Rodriguez notes, a majority of foreign-born Latino households have three or more workers, twice that for Asian immigrants and more than three times that for Anglos. Thus, it is possible, depending on the number of earners and dependents, to be both below the poverty level (which controls for the number in household) and squarely in the middle class (which does not).
Figure 8.
Average Real Household Income by Race in Los Angeles County, 1991-1998
Figure 9.
California Individual Poverty Rates for Latinos and Anglos

- **Latino Poverty Rate**
- **Anglo Poverty Rate**
- **Latino 125% of poverty**
- **Anglo 125% of Poverty**
explanations for poverty, particularly for minority groups in urban areas, tend to center on the problems of joblessness and disconnection from the labor force (Wilson 1987). Many have added to this the element of concentrated poverty, arguing that such residential concentration alters the mix of role models, accelerates spatial mismatch, and can lead to employer discrimination based on neighborhood residence of the job applicant (see Kirschenman, Moss, and Tilly 1996, Jargowsky 1997, Wilson 1996).

The Latino pattern in California, however, is one of working poverty, not joblessness (Pastor 1995, see also Hayes-Bautista 1993, Melendez 1993, Morales and Ong 1993). Figure 10 shows labor force participation by ethnicity in California in 1990; the pattern since (as evidenced in the March Current Population Survey) is consistent with this but the 1990 numbers, drawn from the full ten percent census sample, are more reliable. The striking fact is that Latino males have higher rates of labor force participation than males from any other ethnic group in California; the female labor force participation rate is virtually the same as that for all other ethnic groups despite the fact that Latinas are far more likely to have children. As can be seen in the more detailed breakdown in Figure 11, the labor force participation rate for U.S.-born Latinos is essentially indistinguishable from that of Anglo males; thus, the key factor driving up the overall participation rate for Latinos is the very high labor rates for immigrants, particularly those that have arrived since 1965.

<insert Figures 10 & 11>

For the Latino community, the key issue is not so much securing employment as it is improving the quality of existing employment. One indicator of job quality is whether health
Figure 10.
Labor Force Participation by Ethnicity in California, 1990
Figure 11. Labor force participation rates (males) in California, 1990

- Latino Immig. < 1965
- Latino Immig. 1965-79
- Latino Immig. 1980-90
- US-born Latino
- Anglo

Percent in labor force
insurance is available at work; while this is covered in more detail in this volume by Valdez, recent statistics from the Current Population Survey suggest that insurance rates have been falling in both Anglo and Latino households, reflecting the temporary and contingent nature of much of the work in the new economy, and that Latino households have at least twice the likelihood of facing the world without the security of health coverage.

Another indicator of job quality is unionization, principally because union jobs tend to pay a premium even after controlling for individual characteristics. The pattern evidenced in Figure 12 is interesting: Latino unionization rates have, in recent years, crept above those of Anglos. This may reflect the new emphasis of union organizers on Latino immigrant workers—and the apparent receptivity of such workers to union entreaties. Of course, these union gains have been coming in the bottom end of the labor market, including industries like hotels, restaurants, and in-house health care. Still, unionization is important and the regression evidence offered below suggests that the union premium is especially high for Latino workers regardless of which sector of the economy they occupy.

<insert Figure 12>

Two factors which are key in holding back Latino workers are skills and networks. For one proxy of skills, educational attainment, Latino achievement is well below that of Anglos. Figure 13 looks at education levels for those in the labor force in 1998, breaking the pattern out by Anglos, all Latinos, and U.S.-born Latinos only. As can be seen, the education gap is startling—and while a focus on only U.S.-born Latinos lowers the striking percentage of those who have not finished high school, the percent of college grads is only slightly better than that for all
Figure 12.
Percent Unionized, Anglo and Latino Workers, California, 1991-98
Latinos and well below that for Anglos. Indeed, education is so important that Trejo (1997) suggests that it accounts for virtually all the difference in wages between Anglos and U.S.-born Latinos.

<insert Figure 13>

How important is education and other variables in the determination of wages? To get at this question, I took a subsample of the Current Population Survey's Outgoing Rotation Group files for California in 1997 and 1998 (for details, see the Appendix) and regressed hourly wage outcomes on various characteristics standard in the labor market literature. A panel of results is pictured in Table 1; I examine all those in the civilian labor force, males only, females only, Anglo and then Latino males, and finally Anglo and Latina females. The explanatory power of the regressions, as evidenced by the adjusted $R^2$, is within the usual range for the literature and so I will focus attention on the coefficients, virtually all of which are significant at the one percent level.

<insert Table 1>

Glancing across the specifications, note that education clearly improves wage outcomes. However, the coefficients, which tell us the percentage increases in wages for shifts in the various predictor variables, indicate that the positive effect of education on Latino/as is only about half that experienced by Anglos. Work experience is positive but the returns to seniority are significantly lower for Latinas, likely reflecting a combination of discrimination and the tendency of Latinos be in high-turnover, low-reward secondary labor markets which offer little on-the-job

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8 Per usual practice in labor economics, the actual dependent variable is the log of wages, allowing us to interpret
Figure 13. Educational Attainment for Those in the Labor Force, California 1998

- Anglos
- Latinos
- U.S.-born Latinos

- college grad
- high school grad
- less than high school
<table>
<thead>
<tr>
<th>Variables</th>
<th>All</th>
<th>All males</th>
<th>All females</th>
<th>Anglo males</th>
<th>Latino males</th>
<th>Anglo females</th>
<th>Latina females</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% effect</td>
<td>Sig.</td>
<td>% effect</td>
<td>Sig.</td>
<td>% effect</td>
<td>Sig.</td>
<td>% effect</td>
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<td>Education</td>
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<td>***</td>
<td>0.076</td>
<td>***</td>
<td>0.086</td>
<td>***</td>
<td>0.097</td>
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<tr>
<td>Work Experience</td>
<td>0.031</td>
<td>***</td>
<td>0.035</td>
<td>***</td>
<td>0.027</td>
<td>***</td>
<td>0.036</td>
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<td>Square of Work Exp.</td>
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<td>***</td>
<td>-0.001</td>
<td>***</td>
<td>0.000</td>
<td>***</td>
<td>-0.001</td>
</tr>
<tr>
<td>Full-time Work</td>
<td>0.247</td>
<td>***</td>
<td>0.247</td>
<td>***</td>
<td>0.238</td>
<td>***</td>
<td>0.288</td>
</tr>
<tr>
<td>Union</td>
<td>0.149</td>
<td>***</td>
<td>0.129</td>
<td>***</td>
<td>0.168</td>
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<td>Manufacturing</td>
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<td>0.073</td>
<td>***</td>
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<td>Married</td>
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<td>0.127</td>
<td>***</td>
<td>0.076</td>
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<td>0.160</td>
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<td>Immigrant</td>
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<td>-0.070</td>
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<td>-0.103</td>
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<td>African-American</td>
<td>-0.205</td>
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<td>-0.263</td>
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<td>-0.142</td>
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<td>Latino</td>
<td>-0.141</td>
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<td>-0.159</td>
<td>***</td>
<td>-0.114</td>
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<tr>
<td>Asian</td>
<td>-0.069</td>
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<td>-0.039</td>
<td>***</td>
<td>-0.101</td>
<td>***</td>
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</tr>
<tr>
<td>Female</td>
<td>-0.138</td>
<td>***</td>
<td></td>
<td></td>
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<td>0.432</td>
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<td>0.383</td>
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<td>Number in Sample</td>
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<td></td>
<td>2852</td>
<td></td>
<td>1713</td>
</tr>
<tr>
<td>F-value</td>
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<td>***</td>
<td>218.5</td>
<td>***</td>
<td>148.5</td>
<td>***</td>
<td>120.1</td>
</tr>
</tbody>
</table>

*** significant at the .01 level
** significant at the .05 level
* significant at the .10 level
# significant at the .20 level
training. Full-time work yields a boost to hourly wage, although once again the pay-off is substantially lower for Latinos. Unionization yields a fairly uniform improvement for all classes of workers but the effect is unusually strong for Latinas. A job in the manufacturing sector is a boost for Anglos but a boon for Latinos; this probably reflects the nature of Anglo participation in older high-wage industries and Latino participation in the newer lower-wage manufacturing sectors. Being a recent immigrant (entering the country in the 1970s or 1980s) has a negative impact across the board but the effect is especially strong for Latino males.

Another factor that generally explains economic performance — and one for which no data is available in the CPS files used in this paper — is social networks. Most individuals obtain employment through various forms of personal contacts and Latinos are no exception. Indeed, immigrants tend to be especially dependent on networks for employment opportunities, and researchers have made much of the strength of immigrant networks in both securing jobs and generating community solidarity. But while such networks tend to facilitate success in job search, statistical studies in both Boston and Los Angeles — using different databases but similar techniques — found that Latinos who obtain jobs through such social networks actually earn lower wages than those who found their employment through traditional job agencies and market techniques (see Falcón 1995, and Pastor and Marcelli 1998).

What is needed is a more nuanced understanding of networks, in particular, the difference between "bonding" and "bridging" networks. The former tend to be ties of horizontal solidarity which are useful for community organizing and initial employment; the latter cross geographic,
class, and often ethnic boundaries and pave the way for better opportunities. When communities are boxed in by residential segregation, racial discrimination, and weak educational structures, bridging social networks are few and public policy needs to be directed toward finding useful substitutes, such as community-based employment and training agencies.

Public policy should also take account of these various regression results. While politicians tend to focus on educational improvements, investing in human capital is not enough: Latinos experience lower returns to education and their wages are reduced by their particular placement in manufacturing as well as by immigrant status. In contrast, there are important and relatively uniform (across Latinos and Anglos) returns from work experiences and union membership, suggesting that more policy effort might be devoted to connecting people to consistent employment and insuring a supportive environment for unions to organize and represent the burgeoning Latino labor force.

**Latino Business in California**

While the previous discussion focused on wages and workers, ethnic-owned businesses are also crucial for economic and community advancement. After all, such firms offer one vehicle for accumulating assets and often meet consumer needs unsatisfied by mainstream firms (such as in the ethnic food industry). Ethnic firms are also more likely to hire ethnic workers, providing
key entry points to the world of employment. Finally, ethnic entrepreneurs can often provide the kind of middle-class anchor necessary to secure both community revitalization and political empowerment. For all these reasons, the future of the Latino community is dependent in part on the health of Latino-owned businesses.

Unfortunately, recent data on Latino business is in short supply as the 1997 Census of Manufacturing will not be released until late in 2000. From 1987 to 1992, however, the Census reports that the number of U.S. Latino owned businesses grew 83%, significantly higher than the 26% growth rate for all businesses. The rise in gross receipts was even greater, 195%, over the same five year period as compared to 67 percent for all firms (US Department of Commerce, 1996). A recent report by the U.S. Small Business Administration (U.S. SBA, 1999) suggests that growth has continued through 1997, with an estimated 232 percent increase in the number of firms since 1987 and an estimate increase in revenues of 417 percent over the same period.

Of course, part of the reason for the spectacular growth is that the base was small: even after the rapid growth between 1987 and 1992, Latino firms comprised just 4.5 percent of all firms in the U.S. (while Latinos were around ten percent of the population) and only 2.2 percent of all receipts (US SBA, 1999). In California, the numbers are higher, reflecting the increased presence of Latinos in the state: Latino-owned firms are 11.1 percent of the total and earn about 4.8 percent of total business receipts.

As might be surmised from the relative values for percent of total firms and percent of total revenues, there is also a tendency for Latino firms to be smaller. Across the U.S., 47% of Latino-owned firms had receipts of less than $10 thousand and average receipts for Latino-owned
businesses were $94,000, less than half the $193,000 average for all firms. Latino-owned firms were most comparable to all US firms in the service industries; here Latino firms still lagged behind but garnered average receipts of $48,000, about 57% of the $85,000 average for all firms. The receipt disparity was greatest in manufacturing, where the average Latino firm earned only 38% of the average for all firms. This may reflect the difficult of entering the manufacturing industry at sufficient scale to compete with mainstream firms.

California had the largest number of Latino-owned firms (249,717) and receipts ($19.6 billion) in the country, accounting for 32.4% of all Latino-owned firms and 26.9% of their receipts. The Los Angeles-Long Beach area was the largest metro area in the U.S. in terms of number of firms (109,104), and contained 44% of California's Latino-owned firms and 40% of Latino business gross receipts. Still, Miami was bigger in terms of gross receipts: with only 77,300 firms, Miami's Latino business owners garnered $10.9 billion as compared to $7.8 billion in Los Angeles. A similar scale dynamic can be seen when we consider the top 500 Latino firms in the country: while ninety-two (or 18 percent) are located in California, only two of the top twenty and 13 of the top 100 have a California base. Clearly, California-based firms, enjoying one of the largest and most dynamic markets in the world as well as a huge Latino consumer base, have significant room to grow.

How are these firms positioned in the market? Table 2 compares all U.S. firms, all U.S. Latino firms, and all California Latino firms. As compared to the U.S. average, Latino firms are disproportionately concentrated in agriculture, retail trade, and services; they are

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9 See the Hispanic Business 500 Director, Hispanic Business, June 1998.
### Table 2.
Sectoral Distribution of All U.S., U.S. Latino, and California Latino Businesses

<table>
<thead>
<tr>
<th>Industry:</th>
<th>All firms-US</th>
<th>Latino firms-US</th>
<th>Latino firms-CA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% of revenue</td>
<td>% of revenue</td>
<td>% of revenue</td>
</tr>
<tr>
<td>Agricultural</td>
<td>1.9%</td>
<td>2.4%</td>
<td>4.2%</td>
</tr>
<tr>
<td>Construction</td>
<td>9.2%</td>
<td>11.3%</td>
<td>11.1%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>13.6%</td>
<td>8.5%</td>
<td>8.7%</td>
</tr>
<tr>
<td>Transportation, communication, utilities</td>
<td>3.9%</td>
<td>5.1%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Wholesale trade</td>
<td>19.3%</td>
<td>17.1%</td>
<td>12.3%</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>21.7%</td>
<td>24.3%</td>
<td>25.0%</td>
</tr>
<tr>
<td>Finance, insurance, real estate</td>
<td>9.7%</td>
<td>6.6%</td>
<td>7.4%</td>
</tr>
<tr>
<td>Services</td>
<td>19.9%</td>
<td>23.1%</td>
<td>25.0%</td>
</tr>
<tr>
<td>Industries not classified</td>
<td>0.8%</td>
<td>1.6%</td>
<td>1.5%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Industry:</th>
<th>All firms-US</th>
<th>Latino firms-US</th>
<th>Latino firms-CA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% of firms</td>
<td>% of firms</td>
<td>% of firms</td>
</tr>
<tr>
<td>Agricultural</td>
<td>3.4%</td>
<td>4.3%</td>
<td>5.7%</td>
</tr>
<tr>
<td>Construction</td>
<td>10.6%</td>
<td>12.6%</td>
<td>9.8%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>3.0%</td>
<td>2.4%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Transportation, communication, utilities</td>
<td>4.1%</td>
<td>6.2%</td>
<td>5.8%</td>
</tr>
<tr>
<td>Wholesale trade</td>
<td>3.1%</td>
<td>2.3%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>14.4%</td>
<td>14.0%</td>
<td>14.5%</td>
</tr>
<tr>
<td>Finance, insurance, real estate</td>
<td>11.3%</td>
<td>6.4%</td>
<td>6.4%</td>
</tr>
<tr>
<td>Services</td>
<td>45.0%</td>
<td>45.0%</td>
<td>47.3%</td>
</tr>
<tr>
<td>Industries not classified</td>
<td>5.1%</td>
<td>6.9%</td>
<td>5.6%</td>
</tr>
</tbody>
</table>

### California Latino Firms, Distribution of Numbers and Receipts

- Agriculture
- Construction
- Finance, insurance, real estate
- Retail Trade
- Wholesale Trade
- Transportation, communication, utilities
- Manufacturing
- Services
- Industries not classified

Data & Table
underrepresented in manufacturing, wholesale trade, and finance. These latter industries exhibited
the fastest growth in the number of Latino firms over the 1982-1992 period, suggesting a process
of catch-up is occurring. Still, the overall pattern suggests a relative shortage of Latino firms in
sectors with higher value-added.

<insert Table 2>

The panel at the bottom of Table 2 charts the distribution of Latino firms against the
distribution of Latino receipts: the pattern suggests that services (which has over 47 percent of
the firms but only 25 percent of the revenues) is populated with small and relatively
unproductive Latino firms, a phenomenon which probably reflects the ease of entry into that
sector. Manufacturing firms, on the other hand, are only three percent of the firms but nearly
nine percent of the total revenue, suggesting that even if these firms are small relative to Anglo-
owned firms, they are sizeable compared to the businesses in the service sector.

It is also useful to note how different Latino ethnic groups are doing in terms of business
formation. The first bar in Figure 14 charts the percent of California's Latino population across
four different categories: Mexican origin, Cuban or Puerto Rican origin, Central or South
American origin, and other Latino/Hispanic (mostly European Spanish). The second bar shows
the share of each of these groups in terms of numbers of firms while the third bar shows the
various shares of total revenues for Latino-owned firms. The most striking fact is the declining
share of Mexican-origin individuals across the categories; by contrast, Cuban/Puerto Ricans and
other Latino shares rise dramatically as we move from residents to firms to revenues.
Interestingly, the Central/South American share is much larger as a percent of firms than of either
population or revenues, suggesting an extraordinary amount of early micro-enterprise style entrepreneurship. This pattern would square with the recency of arrival of Central Americans in California.

<insert Figure 14>

In light of the state's growing Latino population, there are clear market opportunities for Latino-owned firms in retail but the recent pattern of healthy economic growth suggests that opportunities exist elsewhere as well.¹⁰ Unfortunately, many Latino firms are undercapitalized and recent reports suggest that Latino firms face higher interest rates on loans, and often reluctant to apply for credit. Aggressive efforts to extend lending activities could be helpful; key as well will be insuring that Latino firms secure a foothold in growing and high valued-added sectors of the economy, a worry given the apparent presence of Latino business in low-end service.

Latinos and the Future of the California Economy

The discussion of business location raises a fundamental question: given growth patterns in the California economy, are Latinos likely to find a secure future? Getting at this question is more difficult than it would seem: simply being positioned in a growth sector does not necessarily guarantee positive economic prospects. As Benner, Brownstein, and Dean (1999) point out, some of the fastest growing industries over the 1990s have been temporary help and restaurant work, neither of which generally offer high pay and reasonable benefits. Growth, in

¹⁰For more on the nature of the Latino market and expenditure patterns, see Paulin (1998).
Figure 14.
Composition of California's Latino Population and Businesses
short, needs to be charted against projected returns.

To analyze this, I began with the state's estimates for job growth by industry between 1996 and 2006, as provided by the Labor Market Indicators Division of the state's Employment Development Department. I then matched these industries to the two-digit industry categories used in the Current Population Survey, a task that required devising a common coding system or cross-walk to link the two series. I then applied these new industry categories to the Current Population Survey's Outgoing Rotation Group for California for 1996 and 1997 to obtain average hourly wages; I deflated these measures by the California consumer price index to insure that the years could be merged to obtain average real wages over the two year period. I then matched the projected industry growth rates and real wages to the March supplement of the Current Population Survey for 1997 and 1998, the first two years of the projected growth period. The matched database, which included demographics, was then used to calculate the ethnic balance of those in fast- and slow-growth sectors and those in the high- and low-wage sectors.

To get at our central question – the future for the Latino community given the dynamics of the California economy – I decided to examine the rate of growth and compensation issues jointly. For the forty-three industries for which I had all measures, I determined the median growth rate and median hourly wage rate.\(^\text{11}\) I then tagged industries as falling into one of four different categories: (1) high-wage, fast-growth, (2) low-wage, fast-growth, (3) high-wage, slow-growth, and (4) low-wage, slow-growth. For example, category (1) includes health services,

\(^{11}\) The medians are actually taken from a weighted sample, with the weights being the sum of sectoral employment in 1996 and projected sectoral employment in 2006. The idea of the weighting was to obtain the median growth rate and wages given the job base in California. This procedure covered all major industries in California; missing were sectors like tobacco in which there were no figures for employment.
entertainment, industrial machinery, and professional services; (2) includes eating and drinking establishments, auto repair, and low-end business services; (3) includes older, established industries such as aircraft, paper, and transportation equipment; and (4) includes furniture, metal finishing, apparel, and miscellaneous manufacturing.

Figure 15 shows wage and growth profiles for Latinos and Anglos, the two most populous groups in the state. As can be seen, Anglos are disproportionately in the high-wage, slow-growth sector; this reflects the presence in older manufacturing firms which are no longer on the rise but still provide for a decent standard of living for incumbent workers. As for the high-growth sectors, Anglos and Latinos have about the same percent of each group's labor force in fast-growth industries — but Anglos are much more likely to be in high-income, fast-growth sectors while Latinos are much more likely to be in low-income, fast-growth sectors.

<insert Figure 15>

Figure 16 looks at the issue from a slightly different perspective. Here, we focus on just the economic sectors projected to grow — after all, the slow-growth industries are not likely to open many new positions for the future Latino workforce. We then examine the current ethnic composition of those two industry sets, comparing both with the general demographics of the California workforce. As can be seen, Anglos are overrepresented in the high-wage, fast-growth industries as are Asian Americans; on the other hand, there is a massive Latino bulge in the low-wage fast-growth sector. The overall analysis suggests why the usual analysis of growth prospects is misleading: it would miss the worrisome concentration of Latino in the low-wage portion of the state's projected economic expansion, a concentration that suggest that the current
Figure 15. Labor Location for the Future
Anglos and Latinos in California

- 26.3% high-wage, fast-growth
- 34.1% low-wage, fast-growth
- 18.4% high-wage, slow-growth
- 21.2% low-wage, slow-growth
divides of income and race may, in the absence of public policy, become wider in the future.

<insert Figure 16>

**Conclusion: New Directions for California**

California may be back – but the evidence suggests that the recovery may also be on the backs of some workers and communities. The distribution of income has, in general, deteriorated and there are persistent and growing gaps by race/ethnicity. Latinos are faring especially poorly, with the key explanatory factors being a lack of education, recent immigrant status, location in the labor market, and lack of unionization. Latino businesses offer a ray of hope, but excessive attention on the spectacular growth in the number of Latino firms masks their small size relative to the market and other firms. Projections for the future suggest that Latinos are well-positioned in growth industries – but in the low-wage set of these industries. If unchecked, these trends constitute a recipe for conflict, resentment, and eventually social conflict. Surely, we can do better.

To improve Latino economic outcomes, it is important to realize that there are three basic approaches to labor market enhancement: rapid economic growth, new methods of placement and training, and new labor standards. The growth angle is clear: if the economy continues to grow, then this tends to raise labor demand, even for the least skilled and most disconnected. The impacts of the recovery are seen in the general drift upward in Latino household incomes over the latter part of the 1990s.

Yet growth is not enough: as noted above, being in the right growth sectors is critical. To
Figure 16. Ethnic Distribution of Growth Industries

- high-wage, fast-growth
- low-wage, fast-growth
- overall labor force

Legend:
- Anglo
- Af-Am
- Latino
- Asian
- Am Ind/other
obtain more Latino employment in such sectors, educational attainment must be improved, particularly in the public schools that train the lion's share of Latino youth. Latino workers also need better placement mechanisms: relying on social networks when there is a pattern of racial segregation by industry will simply project the past into the future. Improvements in training programs, including an expansion of community college opportunities and incentives for direct employer on-the-job training, would also help.

Latino businesses could also use a boost, perhaps through enhancing small business programs, improving community development strategies, and working to expand access to the financial system. Finally, immigrants also need more help to successfully integrate their talents and drive into the labor and business sides of the economy, particularly as it is clear that California will continue to depend on immigrant labor and new evidence suggests that immigrant workers actually help the wages of many U.S.-born workers by keeping jobs and labor demand within the state (Marcelli 1999, Marcelli and Heer 1997, Marcelli, Pastor, and Joassart-Marcelli, 1999).

Setting new standards can also help Latino economic fortunes. After all, as successful as training and placement may be, such strategies do not alter the bottom end of the labor market where many workers languish and other bide their time, hoping and training for a shot at advancement. Conditions could be improved by raising the state minimum wage and expanding health care access for low-wage workers, perhaps through stiffer requirements on employers. The regression results also suggest that unionization is a major boost for Latinos no matter where they are located in the labor market. Insuring that this standard gets set will require that
organizing be made easier by changes in federal law; in the meantime, state and local government could help by at least asking that firms that receive development and other subsidies be required to demonstrate that they have allowed workers full access to potential union representation.

These are not especially radical policy changes and all could be accomplished by a determined governor and state legislature. Forging the political will require two sorts of alliances, one with the middle class, the other with labor. For the middle class, it will be important to stress two facts: (1) the negative effects of labor market changes on Latinos are a harbinger of what may affect more privileged workers down the road, and (2) the fate of the emerging Latino workforce will set the level of tax inflows, and through this affect the retirement and infrastructure spending, that will affect the entire state. As for labor, Latino communities and labor leaders have already increasingly come together on issues of mutual concern, especially the alleviation of working poverty. As a result, Latino labor leaders have become major players in state and local politics, and Latino voters have been crucial to recent labor advances, such as the 1998 defeat of a state initiative designed to limit unions' ability to use member funds for political causes.

A key location for testing these alliances and the policies they may support will be Los Angeles. As noted, the negative experience of Latino workers in L.A. County – an area which includes forty percent of the state's Latino population – is partly responsible for dragging down overall state performance. The new community-labor alliances emerging there offer great hope and the dynamics of the 2000 mayoral election, in which candidates seem to courting the growing Latino vote through attention to the problems of the working poor, could help create a policy
environment open to significant change in the real conditions of Latino communities.

Change will also require a basic shift in attitudes. The significant challenges facing Latino communities in California have sometimes led analysts to treat Latinos as a sort of problem to be solved. Yet the high rates of labor force participation and eagerness to form businesses suggest that the Latino population may be a key asset as the state's economy continues to expand and transform. With the right sort of policies, California's new economy could shift from being the determinant factor dictating Latino fortunes and instead become the vehicle for all the residents of California to realize their dreams of a better life for themselves and their children.
Appendix: Data Sources

The primary data source for most of this paper is the March Supplement of the Current Population Survey (CPS) as downloaded from www.bls.census.gov for each of the years examined. Income figures change slightly between the March 1995 and March 1996 releases (covering the years 1994 and 1995), primarily because the top code values shifted from a set cap to an average of the underlying top-coded values. This procedural shift insures that the aggregate income obtained by totaling the reported income figures matches the real values after 1994; prior to this, annual aggregate income calculated by adding up the household income figures in the CPS data is lower than the actual value. This implies that income distribution calculations between 1991 and 1994 are somewhat problematic, which explains the break in the series between 1994 and 1995 in various figures in the text. For some calculations, particularly the labor force attachment rate, I rely on data derived from the Public Use Micro-data Sample as reported in Stiles et al. (1998); this is far more reliable than the CPS but is also increasingly out of date.

The regressions are done using the CPS’s Outgoing Rotation Group file as provided to me by Working Partnerships USA (San Jose) and the Economic Policy Institute (Washington, DC). This data base is precleaned, including checks against top codes, recalculation of wage rates to eliminate obvious outliers and mistaken entries, and a filter to include only those in the labor force. Unfortunately, the filtered data base does not include a designation for whether the individual is a migrant and, if so, when s/he entered. Since this is important in determining Latino destinies, I pulled the migration codes from the March Supplement files and linked them via household and individual identifiers (including race, gender, and age of the individual as well as the ID numbers so as to avoid mis-linking) for the last two years of the ORG sample; a similar procedure for matching CPS sources is used in Trejo (1997). Because not all those in the ORG were in the March supplement, this misses some of the observations but it was the quickest approach to tagging the pre-filtered sample correctly. I also ran a sweep to clean out duplicate entries, counting only individuals who were in the absolutely final month of being in the ORG sample. A similar matching between outgoing rotation data and month CPS information is conducted in Trejo (1997).

The job projections by industry were taken from downloadable tables available on the Website of the Labor Market Information Division (LMID) of the state’s Employment Development Department. Job projections by occupation are also available but the relationship between the state’s occupational categories and the CPS categories is quite problematic and involves significant recalculation at the three-digit (and below) levels. For the purposes of this paper, I have stuck with industry calculations which were available at a two-digit level for both the LMID data and the CPS; the two-digit is aggregated enough to enjoy sample sizes large enough to calculate reliable sectoral composition figures from Anglos and Latinos without entirely losing specificity to the broad one-digit categorizations. As noted in the text, the median cut-offs used in calculation our four broad industry projects come from a sample weighted by actual employment by sector in 1996 and predicted employment by sector for 2006.
References


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