

NLWJC - Kagan

DPC - Box 040 - Folder 006

Race-Hispanics

Elena

THE PRESIDENT HAS SEEN
3-17-97

~~Book~~ / ~~Attachment~~ - n: ~~financial~~
~~prescriptions~~

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cc Bruce

Bruce - I take it that Maria and Gene have some kind of process going on this. Do you want someone on air staff to take part, or should we leave it to them?

Elena

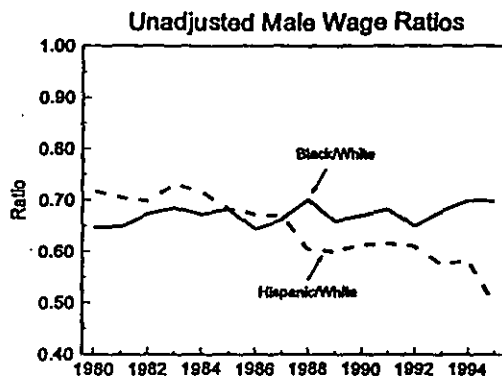
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SPECIAL ANALYSIS

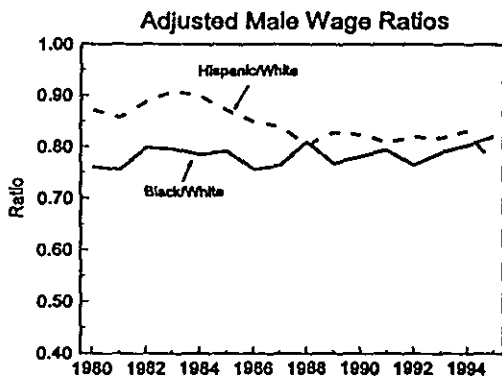
The Economic Status of Hispanics

Recent press reports have highlighted a deterioration in the economic well-being of Hispanics over the past decade or so. Limited job skills appear to be an important explanatory factor.

Trends in relative earnings. The attention-grabbing statistic was a decline in median household income for Hispanics between 1994 and 1995, when other



demographic groups were experiencing increases. But not much should be read into a single year's income data. What is more disturbing is the longer-term trend in earnings. While black men who work full-time, year-round have held their own or even gained ground relative to their white counterparts, Hispanic men have experienced a marked deterioration in their relative earnings (see upper chart).



Analysis. The fact that Hispanic workers tend, on average, to be younger and less-skilled than white (or black) workers explains a significant part of the relative deterioration in their earnings. The lower chart, based on a statistical analysis, shows that the ratio of the earnings of Hispanic workers to those of white workers of similar age with similar education is substantially higher and shows less decline than the unadjusted ratio. The serious deterioration in the unadjusted earnings data therefore

implies that either the proportion of Hispanic workers who are low-skilled has increased or the relative earnings of low-skilled workers has declined. Two developments may be important:

- **Immigration.** The proportion of unskilled Hispanic workers could have increased because of immigration. The annual flow of Hispanic immigrants has been about a half million per year for the past decade (about 2.5 percent of the U.S. Hispanic population). If these immigrants were quickly assimilated into the workforce, this flow would be too small to have much impact on average wages. But some studies suggest that the earnings disadvantage of immigrants persists over time, creating a growing pool of low-skilled workers.

- The skill premium. Whether or not the proportion of low-skilled Hispanics has increased, we know that the relative earnings of low-skilled workers generally have declined over the past decade or two. Hispanics as a group have relatively low skill levels when measured by conventional indicators like education. For example, only 57 percent of Hispanics between the ages of 25 and 29 have graduated from high school, compared with 87 percent for both blacks and whites. During a period when the relative earnings of low-skilled workers have deteriorated, groups with a disproportionate number of low-skilled workers are likely to experience relative earnings declines.

Conclusion. Some of the decline in Hispanic earnings remains unexplained. But low educational achievement and therefore low skills are clearly an important reason for the decline. Whether it is through overcoming language difficulties or other barriers, one route to improving the economic prospects of Hispanics almost surely involves raising educational attainment.