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# The Latino Contribution to U.S. Economic Dynamism

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## Executive Summary

The growing importance of Hispanic Americans in the U.S. economy is attracting increasing attention from economists and other analysts.<sup>1</sup> Latinos are growing as a proportion of the workforce, and the Latino population is younger, more likely to be employed and, by many measures, more entrepreneurial than the population overall. Prior studies have assembled a broad array of data and analysis to demonstrate the importance of Latinos to America's current and future prosperity – a phenomenon sometimes referred to as the “Latino effect.”

This study seeks to further advance our understanding of the Latino effect by examining the effects of growth in the Latino workforce on business dynamism and overall economic performance. Specifically, it seeks to determine whether and how growth in Latino employment affects economic performance. To test this hypothesis, it applies a widely-utilized statistical methodology known as “vector auto-regression” (VAR) to Metropolitan Statistical Area (MSA)-level data on labor productivity, new business formation and economic output.

The findings provide strong support for the proposition that growth in Latino employment has a statistically significant and economically material effect on overall economic performance. Specifically:

- Demographic and economic data show that growth in the Latino population, combined with high labor force participation rates, are helping to offset low birth rates and the aging of the Baby Boom generation, allowing the U.S. labor force to grow at rates needed to maintain healthy increases in GDP. Since 2010, the Latino population has grown by 16 percent, compared with three percent for non-Hispanics.
- A substantial body of evidence indicates Latinos are more entrepreneurial – that is, more likely to be self-employed and more likely to start new businesses – than the overall population. Latinos accounted for nearly a quarter of new entrepreneurs in 2016, despite making up just 18 percent of the population.
- The results of our regression show that the more rapid pace of Latino employment and population growth (compared with the overall population) has strong, significant positive effects on the U.S. economy. Specifically, because Latino employment and population are growing faster than the overall population:
  - More new businesses are being formed: By 2025, the U.S. economy will produce over 52,000 more new startup businesses.

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<sup>1</sup> Throughout this report, the words “Hispanic” and “Latino” are used interchangeably to refer to ethnic Latinos in the United States. Further, for simplicity of exposition, the report refers to Hispanics, whites and other groups as “ethnic” groups (as opposed to “racial” or “racial-ethnic” groups). For statistical purposes, the U.S. Office of Management and Budget (OMB) defines “Hispanic or Latino” as a “person of Cuban, Mexican, Puerto Rican, South or Central American, or other Spanish culture or origin, regardless of race. The term, ‘Spanish origin,’ can be used in addition to ‘Hispanic or Latino.’” See Office of Management and Budget, *Revisions to the Standards for the Classification of Federal Data on Race and Ethnicity*, 62 Fed. Reg. 58782-58790 (October 30, 1997).

- Productivity is increasing: Between now and 2025, output per employee will be higher by an average of \$1,245 each year.
  - Gross Domestic Product (GDP) is rising: Between now and 2025, the U.S. economy will produce an additional \$4.9 trillion in real GDP, or about \$701 billion annually. Real GDP per capita will be higher by an average of \$442 each year.
- Our regression results strongly suggest that the association between Latino employment growth and economic performance is causal in nature, as opposed to the result of mere statistical correlation.

Our analysis may also provide new insight into important aspects of the debate over immigration policy. While about two-thirds of Latinos are native born, they have accounted for a significant proportion of total immigration to the U.S. in recent years: More than 40 percent of all U.S. immigrants came from Mexico, Central America and South America.<sup>2</sup> Thus, the economic effects of Latinos and of immigration are closely intertwined. To date, the academic and policy debate over immigration has focused largely on the short-term wage and employment consequences for native workers and the tax receipts paid and benefits used by immigrants. This study focuses instead on the impact of Latino participation in the economy on overall economic growth. By demonstrating that Latinos contribute disproportionately to business dynamism, which in turn is closely tied to increased labor productivity and economic output, our research suggests a largely unexplored channel through which immigration benefits the economy.

The remainder of this study is organized as follows. Section II provides an overview of existing data and previous research on the role of Latinos in the U.S. economy. Section III presents the econometric model and summarizes its results. Section IV puts the results in context by estimating the impact on the U.S. economy if the rate of growth of Latino employment and population were to slow so as to equal the recent trend for the overall economy. Section V contains a brief discussion of policy implications and suggestions for further research. Section VI provides a brief conclusion.

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<sup>2</sup> Gustavo López *et al.*, "Key Findings About U.S. Immigrants," Pew Research Center (November 30, 2018) (available at <http://www.pewresearch.org/fact-tank/2018/11/30/key-findings-about-u-s-immigrants/>).